Chapter 6. Promoting Australia's services competitiveness

Chapter 6 provides an overview of current Australian government initiatives and policies for promoting Australia's services competitiveness and exports. The chapter sets out activities and programs to fostering innovation through research and development, examines the regulatory environment for the digital economy, and delineates efforts in place to encourage SME participation in global markets. Export promotion strategies are reviewed and compared to the approaches of certain trading partners, and feedback from exporters based on structured consultations is reported.

Recognising that innovation is a key driver of productivity and competitiveness, this chapter reviews a number of government initiatives to support projects in this domain. Government programs to encourage SMEs growth and their export prospects are also presented in this chapter. The chapter also includes a brief review of government export promotion strategies, as well as the views from the stakeholder consultation regarding Australian businesses' experience of these initiatives and possible areas for improvement.

Programs supporting R&D

The Australian Government has various initiatives to sustain productivity and economic growth by supporting innovation and more inclusive participation of Australian SMEs. The 2015 National Innovation and Science Agenda (NISA) set out a series of measures for bringing innovation and science to the forefront of the policy agenda, introducing Industry Growth Centres (Box 6.1) new policies to back small businesses and start-ups, and new programs and funding to sustain further innovation.

As part of NISA, new tax incentives are also available for start-ups involved in innovation, which include a 20% non-refundable carry-forward tax offset on investment, capped at AUD 200 000 per investor per year, and a ten-year capital gains tax exemption for qualifying investments held for at least one year.[1] This additional measure has been introduced to help new and small companies at an early stage of innovation to overcome the financial difficulties they might face in undertaking innovative projects.

Another tool for supporting innovation is the Research and Development (R&D) Tax Incentive (R&D TI), providing companies with a tax offset on part of their outlay on innovative activities (above AUD 20 000).[2] The program is jointly delivered by Innovation Australia – assisted by the Australian Government's Department of Industry, Innovation and Science (DIIS) – and the Australian Taxation Office (ATO). Firms with an annual turnover less than AUD 20 million receive a refundable offset, currently set at 43.5%, whereas firms with a turnover of AUD 20 million or more receive a non-refundable offset, currently set at 38.5%. The R&D offsets are available for up to AUD 100 million of R&D expenditure. R&D expenditure beyond this amount is eligible for an offset at the prevailing company tax rate. Eligible companies must pay income tax in Australia, although they can be in a tax loss position, and submit multiple forms, one of them being a R&D TI schedule listing all R&D claims.[3]

The views of Australians

Companies interviewed during the stakeholder consultation considered the R&D TI a welcome cash-flow injection into innovative projects. Many participants saw the 43.5% rate as quite competitive compared to similar programs in other countries, but found the cut-off threshold for this rate (turnover below AUD 20 million) relatively low. All companies cited challenges due to high compliance costs, e.g. the complex application process (seen as unnecessarily burdensome and time consuming), and the administrative reporting requirements for keeping the tax incentive going once the application is submitted.

The complexity of the application and administration process of the R&D TI hits smaller companies and services providers even harder as they lack the know-how, time and resources to invest in learning the process; hence, they may resort to large consultancy firms for these tasks. While the consultancy fees are often deducted at the end, they are still seen as missed cash flow that accrues to third-party companies and not to the businesses undertaking R&D projects. A recent survey by the Centre for International Economics (CIE, 2016) estimated that the average compliance cost of the R&D TI in 2014-15 to be between 8% and 23% of the program benefits, for large and small businesses respectively.[4] Around half of the total compliance costs (AUD 118 000 and AUD 27 000, for large and small businesses respectively) were fees paid to specialist advisers.

Active trading partners

Foreign governments have similar tax incentives in place to sustain R&D projects and foster innovation (OECD, 2017a). For instance, the United Kingdom offers R&D reliefs to support companies that work on innovative projects in science and technology. There are different types of R&D reliefs depending on the size of the company and on the subcontracting of projects. The SME R&D relief allows qualifying SMEs to deduct an extra 130% of their qualifying costs from their yearly profit, as well as the normal 100% deduction, to make a total 230% deduction, and claim a tax credit if the company is loss making, worth up to 14.5% of the surrenderable loss.[5] Large companies can claim the Research and Development Expenditure Credit (RDEC), which grants a refundable tax credit for 11% of all qualifying R&D expenditure (12% from 1 January 2018).[6] While there is no floor for any type of R&D relief in the United Kingdom (Australia has a minim expenditure of AUD 20 000), there is maximum ceiling only for SMEs projects at EUR 7.5 million (about AUD 12 million); large companies do not have a ceiling on R&D expenditure.

The United States has a R&D Tax Credit, although it only provides funding to firms making a profit. This does not help start-ups or small businesses that are not generating profits yet. In 2016, however, the program began to include offsets of payroll taxes for businesses with total annual turnover below USD 5 million. Due to this change, US companies can now receive a benefit for their research activities even if they are not profitable. The maximum benefit claimable against payroll taxes each year is USD 250 000 (approximately AUD 319 000). However, it remains to be seen whether these recent changes to the R&D Tax Credit have made it more effective for smaller businesses.

Encouraging SMEs' innovation and export prospects

The Australian Government's DIIS has various programs for helping small Australian businesses to grow and internationalise. The Global Connections Fund (GCF), launched in 2016, consists of two types of grants: bridging grants and priming grants. Bridging grants (AUD 25 000 – 50 000) must be spent on seed funding capital to help Australian SMEs either scale up or test their commercialisation strategy. One application proposal per SME-researcher partnership can be submitted.[7] Industries eligible to receive the grant are those deemed Industry Growth Centre priorities (Box 6.1).

Priming grants are intended for partnerships between Australian firms and international research partners to explore collaboration in certain priority economies, with AUD 7 000 per successful applicant.[8] Funds can be used for physical meetings with international partners in foreign locations, to develop collaborative ideas and leverage overseas researchers' academic expertise to help them compete on the international stage. In 2016, priming grants were provided overwhelmingly to Australian firms partnering with the People's Republic of China (hereafter "China") and the United States, with the majority being approved in the advanced manufacturing priority area, followed by medical technology and pharmaceuticals.

Box 6.1. Targeting key sectors with Industry Growth Centres

The Industry Growth Centres initiative is an industry-led approach to promote innovation, productivity and competitiveness. The Australian Government has allocated AUD 238 million over four years and set up six Growth Centres to act as industry associations for specific sectors. Each Growth Centre has a long-term strategy for its sector and key objectives for addressing unnecessary and over-burdensome regulation, increasing the connections between research and industry, improving workforce skills, and fostering engagement in international markets by enhancing integration into global value chains. The six sectors chosen as areas of competitive strength and strategic priority are:

Advanced manufacturing: to date, the Growth Centre has already established three major innovation hubs to stimulate research-industry connections, funded collaborative projects and similar initiatives. This Growth Centre focuses on complex research and design work in the pre-production phase as well as value-adding post-production opportunities, in the form of on-going services. These activities are essential to retain Australian businesses' competitiveness, by increasing the innovation and quality content of their products.

Cyber security: the Growth Centre aims to improve coordination and collaboration between government, businesses and the research community on current and future security challenges, and to work together to build strong cyber defences. The focus is also on improving strong cybersecurity capabilities by investing in the necessary skills to anticipate and respond to cyber threats.

Food and agri-business: this Growth Centre focuses on improving firms' innovation readiness by raising their intra-collaboration and their linkages to research. Another aim is to facilitate access to new markets and help integration of new businesses in the international sphere by reducing regulatory burdens to export.

Medical technologies and pharmaceuticals: the Growth Centre aims to make Australia an Asia-Pacific hub for medical technologies and pharmaceuticals. Project fund programs are already established, the clinical trials landscape has been surveyed to boost Australia's attractiveness as a research-driven destination, and work has begun to support smaller businesses and industry-driven research geared to the needs of the sector.

Mining equipment, Technology and Services (METS): the Growth Centre focuses on creating an identity for the sector and a globally recognised brand; increasing the level of engagement in global value chains, by fostering international collaborations and partnerships; aligning strategies to respond to customers' needs; and enhancing the skill base of the sector to respond to a rapidly transforming technology environment.

Oil, gas and energy resources: the Growth Centre aims to enable innovation in new and existing business models, improve skills, develop better commercialisation strategies, and address the regulatory environment to facilitate innovation and productivity. To date, it has already established several collaborative projects, introduced support for SMEs in the form of innovation vouchers, set up mentoring programs for smaller businesses, and commenced work to align the sector regulatory environment towards best practice regulation.

This initiative represents a national approach to industry policy, with each Growth Centre addressing barriers to international competitiveness at the sector level, by adopting concerted efforts to enhance Australian businesses innovation and productivity levels.

Another competitive grant program for Australian SMEs is the Business Research and Innovation Initiative (BRII). The program, launched in August 2016 under NISA, aims to drive innovation within Australian SMEs and Australian Government agencies by encouraging SMEs to develop innovative solutions to important public policy and service delivery challenges. The challenges are proposed by agencies and selected by the Government, on advice from Innovation and Science Australia. The program's initial round has awarded 29 grants totalling AUD 11million in funding for companies developing solutions for the five challenges selected by the Government.

In 2016, Austrade launched the Landing Pads initiative to help Australian market-ready start-ups with funded access to a co-working space, for up to 90 days, in some of the world's most vibrant and innovative hubs such as San Francisco, Shanghai, Singapore, Tel Aviv and Berlin. Applicants need to be active start-ups with a global vision and scalability potential, ready for an international experience. Landing Pads help firms access local facilities, meet potential partners or investors, tap into a contact network, tailor-made mentorship and business development assistance. These strategic locations also act as regional hubs for firms to get a foot on the ground in foreign markets, including expanding into neighbouring countries (Box 6.2).

Box 6.2. OpenCities: A way of digitalising government services

OpenCities, an Australian start-up that helps local governments provide digital community services, is a successful example of the Landing Pads initiative. It was founded in 2011 initially to provide consulting and customised services to local councils in Australia and New Zealand. Over time, OpenCities began offering more services to help local governments move from paper-based, 9-5 style phone call interactions to 24/7 mobile-friendly online services. OpenCities is transforming the way cities deliver services to their communities, by providing digital solutions that increase customer service satisfaction and partly reduce city councils' operating costs. Examples include the possibility to complete online transactions at any time and from any device, paying parking tickets on mobile phones, finding out the schedules of basic services, keep track of upcoming events around the city, and a range of other services that allow citizens to engage with their city council online.

As the challenges faced by local governments are widely shared around the world, OpenCities is expanding further and opening a base of operations in the United States. This decision was facilitated by the Landing Pad initiative and, in 2016, OpenCities managed to secure a spot in San Francisco. Since landing in one of the world's leading tech-hub, it has won several awards and expanded to supply their product to American city councils in Miami, Orlando and City of Grand Rapids. Having signed up some major US metropolis, OpenCities is now focused on extending its reach and use its success in the United States as a platform for launching into the Canadian market.

Source: Australian Trade and Investment Commission.

The Australian Government has various programs to facilitate knowledge transfer, such as the Entrepreneurs' Program (expanded through NISA and delivered through AusIndustry) launched in July 2014. It aims to transmit the required know-how from industry experts to Australian businesses, researchers and entrepreneurs, for developing their potential and finding opportunities for growth in their field. Advice can be in the form of information on grants options, specialised industry knowledge, connection and collaboration opportunities. Applicants for some program services need to be working in one of five priority industry sectors. Tourism business operators in Northern Australia are also eligible for this program. The program support Australian businesses with a turnover (depending on the program element) between AUD 750 000 and AUD 100 million.[9] The Entrepreneurs' Program shares similar characteristics with other foreign government initiatives (discussed later), which also seem to pick established SMEs that already have a successful business model and market base.

AusIndustry finances the Incubator Support initiative too, designed to provide funding to new and existing incubators, to deliver services for improving the commercial success of Australian start-ups in international markets. Services delivered by the funded incubator include seed funding, co-location, mentoring, professional services and access to networks. Existing high-performing incubators and new ones can apply for a grant of AUD 10 000 – AUD 500 000 per project and for a maximum of two years. The incubator must have an Australian Business Number and be able to match the funding received, and the institution must prove its management and business capacity, expected impact and benefits of the project and value for money. More funding is available to sustain an Expert-in-Residence where national or international expert advisers can be brought in by the incubator to give advice and enhance the expertise housed in the incubator. The funds available for these experts range between AUD 1 000 and AUD 25 000 per project per year.

Australian companies can find additional financial support from the Export Finance and Insurance Corporation (Efic), Australia's export credit agency and part of the Foreign Affairs and Trade portfolio. The early stages of growth are typically marked by uncertainty, particularly for smaller innovative firms that operate in complex and risky environments and without the tangible assets to guarantee bank loans. Therefore, it is even more difficult for these SMEs to access traditional financing channels since lending institutions are averse to risky ventures without collateral. Efic differentiates itself by backing SMEs, which might lack tangible securities, ensuring that they still have enough funds to operate and meet their export contracts. Efic operates a Small Business Export Loan that provides a government-backed loan solution obtainable through an easy online application and fast approval. Eligible businesses must have a turnover between AUD 250 000 and AUD 10 million and must have been trading for at least two years. Finance solutions are also available to established Australian SMEs that want to undertake an export venture, with First Time Exporters Loan starting at AUD 250 000. To counter SMEs' cash flow risk, Efic provides access to an export line of credit with loans starting at AUD 100 000, with the flexibility to be drawn and repaid multiple times during the loan term.

Efic helps to overcome barriers to export finance by working closely with banks and private financiers, exporting SMEs, Australian companies engaged in export supply chains or wanting to establish abroad to better service their foreign clients, and Australian companies operating in emerging and frontier markets. It facilitates the uptake of trade and investment opportunities abroad through a global network of partners, including government agencies, national and regional export bodies, industry and professional associations, and chambers of commerce. In 2015-16, Efic supported over 110 SMEs with 191 transactions, totalling AUD 155 million.

Trading partners share SME priorities

Foreign Governments have well-established programs and initiatives to enhance the competitiveness of their domestic SMEs and encourage them to innovate to ensure successful performance overseas. Innovation can be facilitated by technology transfers borne out of strategic partnerships. For instance, the Partnerships for Capability Transformation (PACT) program by the Ministry of Trade and Industry (MTI) of Singapore MTI (2017) encourages collaboration between large and small enterprises, to help SMEs build capabilities and access business opportunities. Larger firms with at least SGD 100 million (approximately AUD 94 million) in sales revenue are eligible for this program. These might be large domestic organisations, MNEs, government agencies or related companies. Eligible SMEs must operate and be registered in Singapore, with a minimum of 30% local shareholding, and have fewer than 200 employees or an annual turnover below SGD 100 million. The program aims to help SMEs integrate into existing value chains and foster innovation, by working in a test-bed environment in partnership with larger firms and by collaborating on developing innovative solutions. Approved projects are eligible for up to 70% funding support for qualifying development costs. Such partnerships could accelerate SMEs' growth, helping them stay competitive while scaling up locally or overseas.

This program resembles Australia's Global Connection Fund in its aim of fostering inter-firm collaboration. Other foreign governments have set up programs to fund business accelerators or incubators to help smaller businesses to become more competitive and enter new markets, encouraging entrepreneurship and innovation and supporting young businesses with high-growth potential.

New Zealand has a similar program to Australia's Incubator Support initiative, funded by Callaghan Innovation. The Incubator Support Program is designed to contribute funding to technology-focused incubators or founder-focused incubators, the latter defined as providing entrepreneurs with access to support, networks and investment that help develop a business idea and then test it in the market. To encourage firms to use the incubator, each company within the incubator receives up to NZD 450 000 for two years. Firms need to partly self-fund their stay in the incubator with at least NZD 150 000. Within the incubator, assistance is provided through practical support including technology and market validation, business planning, capability development, investment preparation, governance and advisory board advice.

Similarly, the United Kingdom's Entrepreneur First (EF) program facilitates high-tech start-up growth. This GBP 40 million fund, led by the British Business Bank, created in 2011, has worked with 350 individuals to build over 100 successful start-ups. In 2018, it planned to supply GBP 26 million in investment funding to over 100 British companies. In the six-month program, engineers, academics and software developers form teams and work together to co-found start-ups. Living costs are covered as well as office space, legal and administrative support. Mentoring is also provided. In 2016, EF expanded abroad by opening applications for a Singapore program.

The United States runs the Small Business Innovation Research (SBIR) program, which is akin to Australia's BRII. This federally administered seed fund links start-ups and Federal agencies to work together on innovative projects. Federal agencies, with an annual budget over USD 100 million must contribute part of their R&D spending to finance the commercialisation and development of SMEs' innovative ideas.[10] To gain funding, firms must prove that their idea has technical merit, is feasible and has commercial potential. Each SME can receive up to USD 150 000 for a given project, to be spent over six months. Beyond this period, the program assesses whether more funding would benefit the SME. If so, up to USD 1 million is made available to the SME, to be used within two years. In 2012, 5 509 funding agreements, totalling more than

USD 2 billion, had been provided. In 2016, it was estimated that the total amount awarded since inception was over USD 43 billion.

Networking, advice and export promotion strategies

The Australian Trade and Investment Commission (Austrade) offers a series of programs to Australian businesses, educational institutions, tourism operators and government agencies, aiming to promote and support Australian companies in international markets. Austrade generates market insights, assists trade policy development, establishes connections through its global network of contacts, and provides advice and services for Australian businesses. Austrade currently operates 81 offices overseas in 49 countries around the world and has ten offices in major Australian cities.[11]

Austrade's main onshore and offshore trade-related priorities are fourfold. Two of them relate to businesses generally, namely to assist Australian companies to grow their business in international markets and to provide coordinated government assistance to attract and facilitate productive FDI into Australia. The other two are targeted to major industries in the services sector, i.e. to promote the Australian education and training sector in international markets, and to deliver programs and research to strengthen and expand Australia's tourism industry. According to the 2015-16 Annual Report, Austrade was achieving relatively high satisfaction rates among its clients, and had facilitated investment outcomes for 81 of the businesses that engaged with them (Austrade, 2016a).

One of Austrade's funding programs is the Export Market Development Grant (EMDG), which provides funding to current and aspiring exporters to help offset export promotion activities. The scheme reimburses up to 50% of eligible export promotion expenses above AUD 5 000, provided the total expenses are at least AUD 15 000. Each applicant can apply for a maximum of eight grants (one per year) and the years need not be consecutive. The grant is capped at AUD 150 000 per applicant in a given year. Eligible applicants' annual turnover must not exceed AUD 50 million in the grant year; thus, the grant is designed to help export-ready SMEs build a brand for their products overseas. The grant covers the cost of conferences and events held in Australia, registration and/or insurance of eligible intellectual property rights, trademarks, etc. In 2016-17, grants worth AUD 131.4 million were paid to 3 166 businesses (average grant AUD 41 000). Three quarters of recipients were small businesses with annual income below AUD 5 million; 65% of the grants went to services industries. The top five overseas markets reached by the EMDG scheme were the United States, the United Kingdom, China, Singapore and Hong Kong, China (Austrade, 2016b).

Austrade provides advice and support to Australian businesses through its networks of partners, including States and Territories agencies, industry bodies and chambers of commerce. Some of the services include IT platforms, export-readiness assessments, assistance with trade missions and trade fairs, and referencing Australian businesses to specific professional services providers that could help kick-start export plans. Some basic services are provided free of charge, but more tailored ones, such as market entry and expansion advice, are charged a fee of AUD 275 per hour to start with.

Austrade assistance to the education sector involves providing market analysis, targeted research, briefings and promotional events, and subscription-based online services such as the Market Information Package (MIP) offering market insights to help higher education providers identify business opportunities and trustworthy foreign partners. Additional online tools allow education providers easy access to international education data, including international student enrolments, student visas, and related data (field of study, courses, institutions, gender, age range, scholarship status, country of origin, etc.). Austrade also helps Australian VET providers going overseas, particularly to ASEAN markets, by promoting accredited training abroad while aligning their content to local industry needs.

In the tourism sector, Austrade is responsible for marketing and promoting Australia's image abroad to increase inbound tourism. Austrade hosts Tourism Research Australia (TRA), the country's leading provider of tourism intelligence, research and analysis. In conjunction with DoHA and Tourism Australia, Austrade manages Australia's Approved Destination Status (ADS) scheme. The scheme establishes a regulatory framework for Chinese tourists travelling to Australia in guided tours, organised by outbound tour operators approved by Australian and Chinese government authorities – a particularly interesting initiative since China is Australia's most valuable, fastest growing and highest spending inbound tourism market. This scheme was the catalyst of a five-year MoU between the Australian Government and the China National Tourism Administration in 2006.[12] The MoU, which was recently renewed, aims to enhance the tourism partnership, business dialogue and people-to-people connections between the two countries.[13]

Besides Austrade, the Growth Centre initiative (Box 6.1) provides various programs that help Australian businesses to network and to perform internationally. For instance, METS Ignited, introduced in 2016, is an extensive support program for mining-related services. It includes promotion of the Australian METS brand and various opportunities to facilitate global partnerships such as developing major Australian networking events for METS and the mining sector, fostering peer-to-peer learning among SMEs to facilitate access to supply chains and developing training programs for export-oriented METS SMEs. MTPConnect, formed in 2015 as part of the same initiative, is a particularly active Growth Centre in the health sector. The MedTech and Pharma (MTP) Growth Centre fosters collaboration and competition, aggregates existing knowledge and shares it with the broader sector. It aims to boost the growth of the medical technologies, biotechnologies and pharmaceuticals sector to achieve greater commercialisation and establish Australia as an Asia-Pacific hub for MTP companies.[14] Alongside federal-level support, Australia's State and Territory governments provide various trade promotion initiatives such as networking events abroad, trade missions and additional funding for international marketing.

Feedback on Austrade activity

Many of the companies interviewed during the stakeholder consultation considered that the quality of Austrade services was in general satisfactory. There was consensus that Austrade is particularly successful at organising networking events and trade missions, but several businesses reported that these events often do not lead to new contracts. There was also a call for more targeted meetings and better connections to the right professionals. Some felt that the New Zealand Trade and Enterprise (NZTE), Austrade's equivalent, was better able to put businesses in touch with the right industry experts for pursuing their export strategy. Some expressed doubts at how Austrade measures success (in terms of trade-related events rather than concrete business outcomes).

Participants also mentioned a lack of specific knowledge and technical expertise by Austrade in certain sectors, particularly in health services, mining-related services and financial services, and asked for greater and more effective trade promotion as well as better value for money. Charging by Austrade was found to be very unpopular and excessive for smaller businesses, which must pay amounts comparable to the charges of private consulting firms. Many felt that there should be more focus on SMEs to facilitate their understanding of foreign cultures and business practices to better engage with partners overseas, especially in Asia. Various companies argued for a more pro-active role from Austrade after the first few months and for follow-ups to ensure they are adequately supported in their internationalisation.

A number of participants referred to the compliance costs associated with obtaining and managing the EMDG and the related choice by some companies to outsource the application and administration process to external consultants.[15] Some participants drew parallels with similar foreign government initiatives, in particular in New Zealand and Singapore, which have much smoother application processes and faster turnaround. Singapore, specifically, was reported to offer a one–stop shop for a whole range of support programs, from assisting companies (including foreign ones based in the country) with government grants and initiatives free of charge, and with much less "paper handling", to helping fund the recruitment of foreign skilled professionals and handle visa procedures. Market gap analysis to benchmark each business' current performance and identify which opportunities match their business strategy better is also part of these programs. While recognising that the city-state of Singapore is not comparable to the Australian Federal Government, there could still be some important lessons to learn for Australian states and territories in terms of offering a more integrated approach to businesses that would allow them to address a wide range of issues at the same time.

Several participants also pointed to the excessive institutional fragmentation that characterises Australia's approach to export promotion. With Austrade, DFAT, Efic and several State and Territory representatives, there are too many players on the ground; this might not only duplicate efforts, but might as well confuse both Australian businesses and prospective foreign investors. Austrade and DFAT are seeking to address this issue by participating in various forums to improve the harmonisation of state, territory and commonwealth activities on trade and investment promotion. In the tourism sector, several working groups consisting of representatives from the Australian Government, industry and state and territory governments are working together to develop an integrated framework for tourism. Nonetheless, better coordination between federal and state-level initiatives is needed for all sectors of the economy, as for instance is the case in Canada, to address what businesses perceive as uncoordinated effort in Australia and overseas.

Opportunities to upgrade impact

Foreign governments have a long list of export promotion initiatives to support the internationalisation of their businesses. Stakeholder consultations signalled Singapore as the government offering the best integrated support for overseas expansion of Singapore-based companies and for attracting foreign investment into the country. International Enterprise (IE) Singapore, a government agency promoting international trade, has a set of comprehensive assistance schemes for building business capacity and establishing connections necessary to ensure firms can profit from strategic partnerships and get greater access to overseas markets.

One such scheme is the Global Company Partnership (GCP) grant, which helps businesses defray the costs of overseas market expansion. The grant covers the cost of engaging with third-party professionals to build strategic knowledge around branding, e-commerce development, internationalisation strategies, IP management and franchising.

Market access research is funded too, as is part of the cost of establishing a permanent presence abroad. Recognising the challenges in recruiting key talent when expanding globally, it supports the cost of using recruitment agencies to hire senior executives and develop international human resource strategies.[16] The grant covers up to 70% of eligible costs incurred by SMEs (up to 50% for larger businesses). The business headquarter must be in Singapore, with a minimum paid-off capital of SGD 50 000 and annual turnover of at least SGD 500 000.

IE Singapore also offers financial support to businesses to access credit to launch internationalisation projects. This broader program includes schemes for underwriting companies' insolvency risks and co-funding insurance premiums to protect against buyer defaults.[17] Moreover, firms can obtain a 200% tax deduction on eligible expenses when carrying out qualifying market expansion and investment development activities, through the Double Tax Deduction Scheme for Internationalisation.

IE Singapore provides further help to local companies through a Market Readiness Assistance (MRA) grant, co-funding the costs of market expansion plans. It covers up to 70% of eligible third-party costs for activities by businesses preparing to export. Activities whose costs are claimable include legal and tax advice, overseas expansion market assessments, and services related to market entry, identifying business partners, undertaking overseas market promotion and developing a digital strategy. The financial support provided to an SME is capped at SGD 20 000 per year (approximately AUD 19 000) and up to two applications per fiscal year, each limited to one activity (e.g. business matching, market entry, or participation in a trade fair). This program, similar to the Australian EMDG, offers higher refunding rates, covers a wider range of activities, has a smoother application process, but a lower cap compared to the EMDG (AUD 150 000).

Canada provides financial support to Canadian SMEs to explore new export opportunities through the program CanExport. The program is essentially a grant that funds business travel, participation at trade fairs, market research, adaptation of marketing tools to new markets, legal advice, etc. Businesses can claim up to 50% of the expenses on these activities, for a minimum contribution of CAD 20 000 per application. The funding is capped, with a maximum annual CanExport contribution per applicant of about CAD 100 000 (approximately AUD 102 000). Eligible businesses must have no less than CAD 200 000 and no more than CAD 50 million in annual revenue declared in Canada and a maximum of 250 employees. This program is similar to Australia's EMDG in reimbursing half the expenses incurred in export promotion, but starts from a higher base whereby Canadian SMEs do not receive a refund for the first CAD 20 000, while the equivalent threshold in Australia's EMDG is AUD 5 000.

Like Singapore, New Zealand also focuses on building business capabilities to help businesses expand overseas, with the NZTE Capability Development services and "Better by..." initiative series. NZTE offers investment readiness programs to help businesses develop sustainable capital-raising plans and co-funds investment of specific growth projects through the International Growth Fund (IGF) program. Different levels of co-investment for different investor profiles are available, with a government-to-customer co-investment ratio of 40:60, excluding capital expenditure. Eligible businesses must have less than NZD 500 million in international revenue. New Zealand, like many other countries, is investing in boosting business use of digital technology to seize new domestic and international opportunities. Programmes are in place to help businesses build the necessary digital skills for activities such as developing digital marketing campaigns, improving their website rankings in search results pages and evaluating alternative digital solutions. These initiatives, alongside the commercialising of innovation described earlier, highlight how New Zealand aims to empower businesses by providing them with the skill and funding to compete successfully in international markets.

In the United Kingdom, the Department for International Trade (DIT), Austrade's equivalent acts to sustain business export and growth in global markets, and assists overseas companies considering setting-up in the country. For example, DIT offers UK SMEs up to 50% of the cost of market research projects through the Export Marketing Research Scheme (EMRS). The scheme provides free step-by-step advice on carrying out market research in new and existing markets. Furthermore, DIT, through the Trade Access Programme, funds UK SMEs and universities to attend overseas trade shows so as to gain relevant market knowledge and grasp additional business opportunities through contact with prospective foreign partners. DIT helps overseas businesses locate in the United Kingdom by providing sector-specific information and tailored advice on the UK economy, disseminated through a global network of embassies and consulates to help attract inward investors. Finally, DIT facilitates links between overseas buyers and UK businesses by providing a digital directory of potential buyers, suppliers and partners.

The United States has a similar International Partner Search program that matches US companies with prospective overseas partners. Maintained by the US International Trade Administration (ITA), it provides export-ready American companies with a list of international contacts that would be interested in partnering with them or who could represent them abroad. The program costs about USD 550 for SMEs and USD 1 400 for large companies. The US Government also funds the Export Assistance Trade Toolbox, started by the Trade and Development Agency (USTDA), to promote goods and services exports from the United States. Alongside the standard assistance package (such as advocacy services abroad, market intelligence, assistance at trade shows and so on), a novelty of this program is that it also funds reverse trade missions (foreign government officials and businessmen who visit the United States to get familiar with American service capabilities, technology and regulatory environments). In 2016, nearly 500 American companies received foreign visitors financed by the toolkit, enabling them to build connections and discuss potential business solutions (USTDA, 2016).

Another initiative from the US Department of Commerce is the Digital Attaché program. Piloted in 2016 by ITA, it provides American businesses abroad with advice on digital policies and internet regulatory aspects in specific foreign markets, including information on data localisation requirements, and advice on selling digital products or transferring data abroad. Guidance on how digital strategies such as global e-commerce channels could help firms internationalise is provided too.[18] Moreover, the program leverages expertise from the ITA's e-Commerce Innovation Lab in Silicon Valley, which holds half-day interactive workshops to show companies how to develop actionable e-commerce strategies to export regionally or globally or to strengthen their existing plans.

Concluding remarks

Australia's support to innovation comes mostly via the R&D Tax Incentive, but its high compliance costs might compromise its effectiveness. Streamlining the application process can reduce the administrative and compliance costs associated with its current complexity. A recent assessment of the R&D TI, as part of a Government-commissioned review, found that "the large compliance costs for companies registering in the program reduce the effective level of public support flowing to business R&D" (Ferris et al., 2016). There is also a need to develop a more integrated, whole-of-government approach to reduce complexity around the governance of the science, research and innovation system (OECD, 2017b). An inter-country comparison shows that other economies, in particular Singapore, are supporting innovation better, with various instruments that have a simpler application process, more generous incentives and faster handling of funds.

There is also scope for simplifying further the application and administration process behind the EMDG, to increase the effectiveness and inclusiveness of the scheme. More targeted meetings and better connections to industry experts from Austrade, and more detailed knowledge and technical expertise in some services sectors, are needed. Similar initiatives by some foreign governments, New Zealand, Singapore and the United Kingdom, seem to be more successful in that respect. Moreover, business consultations revealed that further prodding from the government, with adequate follow-up (financially or in terms of networking) after the initial stage of internationalisation, would help businesses thrive in foreign markets, minimise their risk of pulling out, and consolidate their position overseas.

Finally, simplifying the governance of export promotion activities by developing a more integrated approach and better coordination between state and federal-level initiatives could benefit both Australian companies and potential foreign investors. Singapore and Canada offer good examples in that respect.

Notes

1. This initiative, based on the United Kingdom Seed Enterprise Investment Scheme, raised over AUD 500 million in start-up investment for 3 000 companies in its first two years. See https://www.innovation.gov.au/.

2. The current description is based on the R&D TI as of May 2018. The recent Government's announcement on the 2018-19 Budget includes plans to reform the R&D TI starting from July 2018. The reform aims to improve the integrity of the program, continue support SMEs undertaking R&D activities and refocus support for the larger companies towards those undertaking additional, higher intensity R&D. Therefore, some aspects described here may be subject to change. For further information on the R&D TI reform see: https://budget.gov.au/2018-19/content/bp2/download/bp2_combined.pdf, and https://www.budget.gov.au/2018-19/content/factsheets/6-tax-integrity.html

3. Companies must apply for registration of all their R&D activities with AusIndustry (on behalf of Innovation Australia) within ten months from the end of their income year. Subsequently, companies can claim the tax offset in their annual income tax return by accompanying ATO's R&D TI schedule, detailing all R&D expenditure incurred in the income year.

4. Compliance costs include the time and resources required to complete the registration process with AusIndustry and a programme tax schedule with the ATO; and to maintain proper records to justify the activities and to respond to reviews and audits (Ferries et al. 2016).

5. SMEs are defined as companies with less than 500 employees and a turnover of under EUR 10 million (approximately AUD 15 million) and gross assets of no more than EUR 86 million (AUD 133 million). The values are in euros because the R&D tax credit scheme follows the European Commission definition of SME.

6. RDEC can also be claimed by SMEs who have been subcontracted to do R&D work by a large company or who have received a grant or subsidy for their R&D project.

7. The application process is particularly burdensome requiring an expression of interest and then a full application containing a budget outline. An interim 6 monthly progress report must follow, completed by a final one year report; finally there is a mandatory exit survey.

8. Brazil, China, European Union Member States, India, Israel, Japan, Korea, New Zealand, Singapore, Switzerland, Chinese Taipei, United States and Viet Nam.

9. Applicants from Remote Australia or Northern Australia have different turnover thresholds, ranging from AUD 750 000 to AUD 100 million.

10. See: https://www.sbir.gov/agencies-landing.

11. Sixteen of Austrade offices overseas are located in cities without an Australian embassy; hence, they provide consular services on behalf of the Australian Government too.

12. For more information see: http://dfat.gov.au/trade/topics/pages/international-tourism-engagement.aspx.

13. ChAFTA also targets China as a destination market for Australia investment in the tourism sector. The agreement assists Australian investment in tourism assets and grants Australian companies the opportunity to construct and operate hotels in China.

14. For more details see: https://www.mtpconnect.org.au/.

15. EMDG applications can be lodged by export grant consultants on behalf of firms. A recent review of the EMDG (Austrade, 2015) found that "the consultants' share of EMDG claims has increased considerably over the past two years, from 58% in 2011–12 to 69% in 2013–14". Also, in 2012, Austrade introduced a framework for a voluntary system aimed at improving the quality of applications prepared by EMDG consultants". The report found that in 2013-14, only one-third of the EMDG applications were self-lodged.

16. The manpower development element of the GCP has an overseas market attachment program to facilitate intra-corporate transfers. It helps company employees acquire market knowledge, prepare for upcoming postings and gain relevant technical knowledge from overseas experts through exposure to international projects.

17. These schemes are the Internationalisation Finance (IF) scheme, the Political Risk Insurance Scheme (PRIS), the Loan Insurance Scheme (LIS/ LIS+), and the Trade Credit Insurance Scheme (TCIS).

18. Digital Attachés are based in US embassies and consulates in Brazil, China, Belgium, India, Singapore, and Japan. After positive reviews from stakeholders, the program was expanded to include Korea, Indonesia, Mexico, South Africa, Germany and France.

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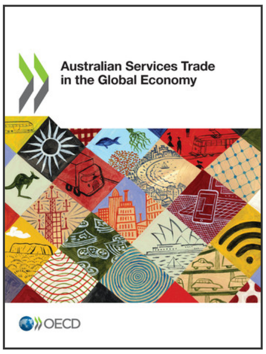

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