



**Australian Services
Roundtable**

**Submission to the House Standing Committee on
Economics, Finance and Public Administration**

**Inquiry into the current and future directions of
Australia's service industries**

www.servicesaustralia.org.au

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1. What is the Australian Services Roundtable?

The Australian Services Roundtable (ASR) is the national Canberra-based peak business body for all of the services industries in Australia. Our members include individual firms as well as business associations. A list of current members is attached. ASR was built in 2001 on the foundations of the earlier Australian Coalition of Services Industries (ACSI) and the subsequent Australian Services Network.

ASR is a member of the Global Services Coalition. The membership of this Coalition has grown rapidly over the last few years as the services sector mobilises and services industry groupings have emerged in a broader range of countries.

Box 1: Objectives of the Australian Services Roundtable

- To provide for all the services industries in Australia a **peak business body**.
- To represent the **broadest possible range of services sectors**.
- To promote **research** in the services sector.
- To stimulate informed **policy oriented networking** by industry participants.
- To identify the **domestic regulatory obstacles to international competitiveness**.
- To promote the **need for domestic policy reform** to enhance international competitiveness.
- To **advocate and represent** the interests of services industries to government.
- To build a strong recognisable **public profile** for the services sector in Australia.
- To focus on the international dimension to government policy affecting the services industry issues, including trade policy, industry development policy, competition policy, investment policy, innovation and R&D policy, immigration policy and taxation policy.

2. What are Services?

Good policy-making in services suffers from poor definition of the nature of services

industries in economic theory and in statistical collections. This is despite the fact that services activity - on any measure - dominates developed economies including our own.

Services are very poorly understood as 'tertiary' activities that do not produce tangible 'things' or 'goods'. In the official statistical classifications, the services sector is generally defined negatively – as including all economic activity other than mining, manufacturing, agriculture, forestry and fishing.

This economic "residual" (which is in fact the bulk of the economy) is typically set out in the Australian and New Zealand Standard Industrial Classification under 14 rather obtuse services industry groupings;

Electricity, Gas and Water	Finance and Insurance
Construction	Property and Business
Wholesale trade	Government Administration and
Retail trade	Defence
Accommodation, Cafes and	Education
Restaurants	Health and Community Services
Transport and Storage	Cultural and Recreational
Communications	Personal and Other

It should be immediately obvious, given the terms of reference of this Inquiry, that this list of services industries is not necessarily adequate from any policy perspective and most especially inadequate from a trade or investment policy perspective.

For a start it does not include Tourism. Tourism is not classified as an 'industry' as such but rather a collection of activities such as restaurants, wineries, transport operators, tour guides, hotels and a wide range of other businesses. Nor is it obvious under which headings architectural services or computer services, for example, might be included. Most academic researchers, let alone industry representatives, tend to look at the official services statistics and despair.

The prevailing negative definition of services is also inappropriate in practice. Many services activities do in fact result, incidentally, in production of a tangible 'thing' e.g. a restaurant 'meal', an Aussie 'movie' or a published audit 'report'. Similarly, significant services sector activities are embedded within every goods-producing industry. Indeed, services incidental to or embedded in manufacturing, mining and agriculture are known to account for critical added value and competitive advantage in the goods sectors.

ASR members' experience tends to be that, partly because we do not have an insightful official definition which helps us to understand what services *are*, that we have serious difficulty focussing policy attention directly on services activities in their own right, rather than merely as 'incidental to' or 'embedded in' or 'bundled with' the various goods producing industries.

Unless Australia starts to focus explicit policy attention on the services industries in their own right, we will not make progress in identifying the drivers of competition and innovation specifically in services activities and hence in defining a strategy to help meet the policy needs of the bulk of the Australian economy. In focussing policy attention on the services industries, ASR finds it useful to draw, inter alia, on the detailed sectoral classification set out in the General Agreement on Services (GATS) in the WTO.

Services sectors which are currently of significant immediate interest to our membership include, inter alia

- Telecommunications
- Financial Services (eg banking, insurance, securities, funds management and investment services)
- Professional Services (e.g. accountants, lawyers, engineers, architects, consultants)
- Education
- Tourism
- Information Technology and Computer Services
- Standards and Conformance assessment Services
- Transport and Logistics
- Audio-visual services
- Media
- Entertainment
- Cultural
- Other Business Services
- R & D Services
- Health Services
- Environmental Services
- Energy Services
- Mining Technology Services
- Retail, Wholesale and Distribution
- Postal and Courier services

Box 2: Defining Services

Services deliver help, utility or care, an experience, information or other intellectual content. The majority of the value of that activity is intangible rather than residing in any physical product.

3. Australian Services Sector Statistics

According to the Australian Bureau of Statistics (ABS) data, the services sector accounted in 2004/5 for

- 77.9 percent of Australia's GDP (\$554 billion)
- 84.1 percent of employment (8,230,000 people)
- 60 percent of investment (\$71.1 billion)
- 22.8 percent of exports (\$35 billion)

In 2004-05, services sector GDP, employment, investment and exports grew at an average annual rate of 3.0 percent, 3.4 percent, 11.7 percent and 3.0 percent respectively.

Department of Foreign Affairs and Trade (DFAT) figures indicate that services exports rose another 4 percent in 2005 to reach a record \$37.2 billion.

Services imports in 2005 were \$38.5 billion. 3/4 of Australia's services imports are travel and transportation (including outbound tourism). The remainder is insurance and other financial services and a variety of business, professional and technical services.

Gross Domestic Product (GDP)

The services sector accounts for close to 4/5 the Australian economy. This is high by international standards, the share of services in the national economy having seen a rapid increase over the last 15 years with the shift to a knowledge-based economy. The economy is expected to keep moving in this direction.

Industry Gross Value Added (GVA)

In 2004-05, the service industries' share of Australia's total industry gross value added was 66.8%. In volume terms, GVA for total service industries grew very rapidly by 13.4% between 2000-01 and 2004-05, compared with 10.1% for total goods producing industries. Estimates for 2006 suggest this figure has now risen to closer to 78 percent. The largest activities are property and business services, followed by finance and insurance services and then tourism.

Box 3: Services Statistics Made Simple

- The services sector accounts for 78% of GDP, 78% of gross industry value added and 60% of Investment- close to 4/5 of the economy.
- Services industries employ 85 of every 100 Australians.
- 82% of Australian firms are services firms; most are small and medium and only 3% of them are exporting.
- Services exports in 2005 were recorded as \$37b (Tourism \$11b, Passenger Transport \$7.5b, Education \$7b, Finance & Insurance \$1.5b).
BUT...
- Balance of Payments (BoP) data does not measure services exports delivered via offshore commercial presence (branches overseas) or franchises. Recent ABS surveys of Australian-owned foreign affiliates shows the BoP is probably picking up less than 1/3 of the actual exports of services taking place.
- Even as currently measured, services exports, at 23% of total exports, are larger than rural exports and almost on a par with manufactures exports.
- Embedded services account for about 1/5 of the value of exported goods.
- Australia's top services markets are US, Japan, UK, NZ, and China.

Number of Services Firms

Austrade estimates that as many as 82 percent of Australian firms are services firms and remarkably, services firms account for 67 percent of the total population of 25,000 Australian firms that export.

But it is only a tiny segment (3 percent) of this vast services sector that is exporting (17,700 firms out of 577,158 services firms in Australia). We make this point not because it is a problem - on the contrary it was only a few years back that services were still thought of as 'non-tradeables' - but because it illustrates the potential scope available from which to boost our future export performance.

Box 4: Did you know that...?

- Services industries are the most important source of productivity and innovation in Australia.
- For the last 20 years, Australia's services sector has grown faster than any other sector.

Small and Medium Sized Businesses

Business and professional services, especially consultancy, legal services, accountancy, communications and the media are among the fastest growing industries in Australia, with the numbers of firms doubling between 1994 and 1998. The vast bulk of these 120,000 odd firms in 1998 had less than 5 employees. But collectively, in 1998, they generated some \$34 billion of GDP.

Employment

Services industries already employ 85 out of every 100 Australians and no net new job has been created in any other sector for the last two decades. The largest employer is retail trade, accounting for 20% of total services employment. Other large employing industries are property and business services, health and community services, education and tourism related activities.

4. Measuring Australia's Services Exports

DFAT estimates that services exports rose by 4 percent in 2005 to reach \$37.2 billion.

- Exports of travel services rose by 5 percent to \$19.6 billion (travel services include education-related travel services, which make up almost all of 'education' services exports)
- Transportation services exports rose by 2 percent to \$8.1 billion
- Short-term visitor arrivals rose 5 percent to \$5.5 million
- Other services exports were up 1 percent to \$9.4 billion, led by architectural and engineering services, legal, accounting and management services, insurance services and R & D services

At nearly 23 percent of exports, official estimates of Australia's services exports are now roughly on a par with manufactures exports and outdo Australia's rural exports.

But trade in services is known internationally to be notoriously difficult to measure and the above official figures are likely to be significant understatements for the following reasons:

- First, Australia's services sector makes a much larger contribution to exports than its direct share, as services are often integrated with other goods; on average about one fifth of the value of Australia's goods exports is estimated to be composed of services.
- Second, the ABS compiles trade in services statistics within the framework of the System of National Accounts and the Balance of Payments (BoP). Imports are defined as services delivered by non-residents to residents of Australia; exports are services delivered by residents to non-residents. But services are traded internationally via 4 separate modes of delivery (see box below). The BoP underestimates trade in services by omitting sales of services through Modes 3 and 4. Initial surveys of 100 percent Australian owned offshore affiliates were undertaken by the ABS in 2005 to try to get a grasp on Mode 4 services exports. The results suggest that the official data on services exports as measured by the Balance of Payments has probably been measuring less than one third of Australia's actual exports of services.
- Thirdly, the only types of service exports on which official ABS export data are regularly available include passenger and freight transportation services, travel services, communication services, a range of business services such as computer and information services and financial services, and certain personal, cultural and recreational services. A number of types services exports are not picked up in the statistics at all.
- Finally, the supplementary data available from ABS industry survey work is inadequate. Collections of selected service industries are undertaken supposedly in response to user needs but to date do not seem to reflect Australian export industry priorities. Outputs for 2003-04 included public libraries, museums, accommodation, cafes and restaurants and travel agency services. Outputs for 2004-05 are expected to cover pubs, clubs, sport and gambling services. Outputs for 2005-06 will cover retail and wholesale.

Box 5: Modes' in which services are exported

- **Mode 1: Cross-border supply** is defined to cover services flows from the territory of one country (the exporter) into the territory of another (e.g. banking or architectural services transmitted via telecommunications or e-mail);
- **Mode 2: Consumption abroad** refers to situations where a services consumer (e.g. a tourist, student or medical patient) travels temporarily into another country's territory (that of the exporter) to obtain a service abroad;
- **Mode 3: Commercial presence** takes place where a services supplier of one country (the exporter) establishes a local presence, including through ownership or lease of premises, in another country's territory to provide a service in that market (e.g. domestic subsidiaries of foreign insurance companies or hotel chains). This activity may be picked up and measured and described as **"investment"** but conceptually, from an international trade policy and trade law perspective, this activity constitutes services export activity
- **Mode 4: Movement of natural persons** consists of services providers of one country (the exporter) travelling temporarily to the territory of another country to supply a service (e.g. accountants, lawyers, doctors, teachers).

Top Export Performers

Tourism is considered to be Australia's largest services export, and second largest export overall, representing 11.1 percent of total exports of goods and services, contributing \$18 billion in income and employing 550,000 Australians.

Education is Australia's second largest services export industry and fourth largest export industry overall, behind coal, tourism and iron ore. According to the Department of Education, Science and Training, international education contributes more than \$7.5 billion to the Australian economy and supports over 50,000 jobs. There are now about 340,000 international students studying in Australia and about 100,000 students undertaking Australian courses overseas.

Box 6: Did you know that...?

- The Chinese students studying in Australia are worth more in education services export earnings than all of Australia's wheat exports to China.
- On average, one Japanese honeymoon couple is worth more in tourism export earnings for Australia than 10 tonnes of Australian coal exports to Japan.

Statistical information is seriously lacking, including for confidentiality reasons, for the bulk of the other major services exports. This applies even to major sectors such as financial services (especially insurance), telecommunications and ICT services. And then there is the vast array of professional, technical and business services which anecdotal business evidence suggests are seriously underestimated in the BoP data, especially for example legal, engineering, architectural and cultural services

Export Destinations/Export Deficits

In current price terms, Australia's international trade in services balance in 2004-05 recorded a deficit of \$1.5 billion, a worrying turnaround of \$2 billion on the \$0.5 billion surplus recorded in 2003-04. Services exports rose \$1.3 billion (3.7%) to \$36.5 billion and services imports rose \$3.3 billion to \$38 billion (9.6%).

The largest country contributor to the overall deficit on services was the United States of America, with a deficit of \$2 billion. Deficits were also recording for most European trading partners, with Switzerland the largest at \$0.6 billion. Australia recorded a net surplus with a number of its Asian trading partners, the largest being Japan at \$1.3 billion. Australia also recorded a net surplus of \$0.6 billion with New Zealand.

5. Understanding the Constraints to Services Exports

Barriers to Market Access Abroad

The nature of the barriers to international trade in services is completely different from the barriers to international trade in goods. The barriers have nothing to do with tariffs or quotas at the border. The barriers have to do instead with a myriad of often opaque government and industry regulations deep inside the export destination economy - regulations which limit who can do business in the sector and how.

This significant difference results from the fact that given the intangible nature of services, trade in services is about people movement (modes 2 and 4) and establishment/investment (mode 3) inside the export market. It is also because "cross-border" trade (mode 1), where it is technically feasible, generally takes place via telecommunications links.

Services industries tend, either because of a history of public monopoly/government ownership and control, or for other public interest reasons, to be relatively highly regulated. In some industries, such as many of the professions, the industry may be self regulated. It is chiefly the nature and structure of these various domestic regulations which determine – and limit – the extent of foreign access to services markets. The barriers to trade in services are often described, therefore, as domestic regulatory barriers which exist 'beyond' or 'behind' the border'. Behind the border regulatory barriers are typically less transparent than barriers at the border.

Services trade liberalisation is not therefore about removing tariffs and other border measures. It is about achieving more transparent, less discriminatory and less trade

restrictive regulation; about easier movement of personnel and easier offshore establishment, and about opening up to foreign investment.

It is important to take the above into account and update public understanding of the traditional expression “trade liberalisation”. In a fast globalising services-oriented economy, a call for “trade liberalisation” is a call for a higher level of foreign participation in every business transaction across the economy, contributing as a result to an overall better business environment. It is specifically a call for regulatory reform including at the micro-economic level, for easier access to visas and for liberalisation of rules restricting investment.

Box 7: What is “Trade Policy”?

Traditionally “trade policy” has been about managing the flow of goods across the border, and “trade liberalisation” has been about letting more foreign goods in. In a modern services economy, the story is more complex. Trade policy is about managing the nature and extent of foreign participation in all domestic economic transactions and trade liberalisation is about allowing foreigners to compete on equal terms with nationals.

International Competitiveness

It follows from the above discussion, that inefficient domestic regulation at home is not only a barrier to imports but can equally be a key constraint to services export competitiveness. For an Australian services industry to be internationally competitive, domestic regulation of that sector needs to be world’s best practice. Where domestic regulation is unduly costly and burdensome to industry, potential Australian services exporters will be prejudiced in foreign markets, as will Australian exporters of all goods in which services are increasingly heavily embedded. Many services industries are often looking, therefore, for ‘reregulation’. (This concept needs to be distinguished from ‘deregulation’; there is often no debate that regulation of some kind is required in many services areas and for a broad range of public policy reasons, including for example social, cultural, environmental and prudential.)

It is critical to understand that domestic regulatory reform and trade liberalisation in the services sector tend to improve the business environment for both domestic firms and foreigners. Interestingly, services liberalisation tends to be win – win rather than win –

lose. The empirical evidence¹ is that domestic services sectors tends to grow, rather than decline, when the sector is opened up to increased competition. This is quite unlike the situation in goods markets, where trade liberalisation may lead to a decline in former heavily protected industries. This is also one reason why inward investment into the services sectors (classic services import activity) is seen in Australia as beneficial to the economy and indeed has significant bureaucratic resources devoted to it.

Benefits of Liberalisation in Services Trade

Relative to the goods sectors, the services sector is by far the most heavily protected sector globally, burdened with the highest degrees of entrenched politically sensitive government intervention.

While tariffs have come down in goods trade, a wide range of opaque impediments to international business continues to distort world trade in services. It follows that the global benefits of liberalisation in services will far exceed the gains from liberalisation in other sectors.

According to an assessment by DFAT, cutting global services trade barriers by half would be worth about US\$250 billion a year with the benefits distributed very widely, including in developing countries. Other recent estimates of the economic impact of services trade liberalisation suggest the gains could be even greater than this. A recent estimate in a study commissioned by the United States Coalition of Services industries (USCSI) suggests that full services sector liberalization could result in global welfare gains equalling \$1.7 trillion. This is more than double the potential gains from liberalisation of trade in industrial goods, and 31 times the projected gains from liberalisation of agriculture. These modelling results make sense given that a strong services sector enables financial, technological, and infrastructure development economy-wide, which in turn facilitates greater investment and trade also in the agricultural and manufacturing sectors.

Australian services firms would reap their share of this estimated global gain. The Productivity Commission has estimated, for example, that a successful global outcome in the WTO Doha Round negotiations on services could add as much as half a percentage point to Australia's GDP growth.

¹ Dee, P. 2004, 'Measuring the cost of regulatory restrictions on services trade in Malaysia', background report to the study on 'Improving the investment climate by reducing the regulatory burden in Malaysia', World Bank, September.

Dee, P. 2004, 'Cost of services trade restrictions in Thailand', background report to the 'Productivity and investment climate assessment in Thailand', World Bank, September.

Dee, P., Duc, L.T. and Hiep, D.T. 2005, 'Evaluating Vietnam's WTO accession offer in services', World Bank, May.

Dee, P. 2006, "Services trade negotiations- what's in it for East Asia? Prepared for the World Bank East Asia Policy Brief, February 2006

Box 8: Did you know that...?

- The barriers to trade in services are more formidable than in any other sector.
- The global gains from trade liberalisation in services would be worth many times more than gains from agriculture or manufactures.

6. Policy Priorities for the Services Sector as a Whole

(1) Make administrative arrangements to develop a strategic policy for the services industries

Australia does not have a services industries policy. Australia does not have a services industries export strategy. Nor is there any effort underway at Federal level to rectify this policy gap (although at State level there is some action).

This directly constrains Australia's approach to international trade negotiations. With no underlying policy thrust for the sector as a whole, Australian trade policy can be oriented to no more than making at best "standstill commitments" in services, even when domestic reform might in fact enhance Australia's own services export performance.

The single most important step which could be taken to improve the status and performance of the Australian services sector is the designation of a central point of interlocution and coordinated policy responsibility within the Federal Government.

Australia has one of the most dominant services sectors in the world. But there are no Federal administrative arrangements which recognise or take visible responsibility for the services sector as a whole. There is no Minister responsible for services. There is no Parliamentary Secretary responsible for services. There is no Federal government agency with coordinating responsibility for the services sector. The only portfolio which coordinates an all-of-government position in relation to services is the Department of Foreign Affairs and Trade, which does so only in the context of international trade negotiation. There are many Cabinet portfolios which carry certain services industry responsibilities but there is no apparent required sectoral coordination between them. And there are some services industries which find no natural home under any existing Federal portfolio. The services sector as a whole is simply not recognised as such on the public radar.

This matters because there are important policy issues that impact on all services industry activities.

Until this persistent absence of a single point of recognition in the federal system of government is addressed, Australia will continue to display no formal coordinated

services industry policy. And there will continue to be nowhere for the services industries to go to input into formulating one.

One useful step would be the creation of a Parliamentary Secretary, under the Prime Minister, with responsibility to coordinate services sector perspectives across the board. Another option might be to reintroduce at least some responsibility for all the services industries within the industry portfolio, via for example reconstruction of a version of the Emerging Industries and Services Branch which was abolished five years ago.

(2) Increase funding for ABS work on trade in services statistics

It is abundantly clear to industry and to the research community that the ABS needs urgent additional allocations of funding to improve its collections on services industries. The need is particularly urgent with respect to statistics on exports and imports of services, including;

- on a State basis,
- by geographic destination,
- by GATS classification and
- by mode of delivery.

It is especially critical that the ABS expand its initial survey work to cover both onshore and offshore trade in services by Australian foreign affiliates. Until this work takes place, we will not have the basic research tools to undertake robust study of key strategic questions in relation to the drivers of foreign trade and investment in services.

(3) Fund a national programme of services sector research

Research

There are currently no institutional arrangements in place, focussed on sponsoring publicly funded research into services sector-wide matters. The bulk of public money for research continues to go to the goods sectors.

There exists, as a result, no national programme of independent research underway which would help determine the main directions of development in the services sector as a whole. This handicaps our ability, for example, to address key questions before this Inquiry, such as which particular services industries are likely to move offshore and which services exports have potential to grow and why.

There is a need for funds to be allocated to establish a new national programme of services sector research.

Innovation

Australia needs a better developed, more robust understanding of what drives both innovation and competitiveness in its services sector. Initial studies suggest that the factors which drive innovation and the manner in which innovation takes place are very different in the services sector compared with the good sectors, suggesting that quite different policy instruments also might be required to promote it.

This is important because innovation in the services sector has been the critical factor underpinning recent productivity growth. Services innovation can be expected to play a key role in shaping Australia's position in the global division of labour.

The appropriateness of our education, innovation and research policies for a knowledge based and increasingly services focused economy has not been adequately assessed. Meanwhile, the sectoral, geographical and ownership dispersion of services activity means that there are weak signals shaping investment in knowledge and research.

There is a need to assess whether a potential facilitating role exists for Government in redressing this gap.

(4) Ensure Australia has world's best regulatory practice

As explained above, government regulation is often the main barrier to international services business. Every services industry is affected by government – and sometimes industry - decisions on who can do business and how business must be conducted. Regulation is also a key determinant of service sector competitiveness and the chief constraint to export success.

If Australia's regulatory house is not in order, export potential will be prejudiced. And domestic competition may be impaired. In such cases, international services negotiations could result in easier access by foreigners to markets in which domestic suppliers remained restricted in their terms of entry or operations. The trade liberalisation challenge, therefore, is to remove barriers to doing business facing all entrants, domestic and foreign, not just to foreign suppliers. Domestic deregulation – and sometimes reregulation - is often an essential prerequisite to the removal of discrimination against foreign services suppliers.

A wide ranging regulatory and micro-economic reform program has been running in Australia for more than two decades including deregulation of access to finance, floating the currency, reductions in barriers to trade and foreign direct investment, government business enterprise reform and increasing labour market flexibility. These policy reforms added to competition in the domestic market, increased the incentives to operate efficiently and removed impediments to adjustments to production processes and the organisation of businesses. They contributed to the surge in productivity growth in Australia which was observed from the early 1990s. Services made an increasingly important contribution to this productivity growth. According to Productivity Commission research, in the early 1990s, there was strong productivity growth in the infrastructure sectors of electricity, gas, water, and information/communications. In the latter part of the 1990s, other industries in the service sector made a greater contribution to productivity growth, especially industries such as wholesale trade but also construction, and transport and storage.

These links between reform and productivity growth highlight the value of significantly intensifying micro-economic reform by tackling the remaining regulatory issues.

Against that background, the Australian Services Roundtable welcomes the Federal Government's response in August this year to the report of the Taskforce on Reducing Regulatory Burdens on Business. The Government has accepted the need to reform a number of regulations that were overly prescriptive, poorly targeted, mutually inconsistent, duplicative or unduly onerous. Achieving a sustained improvement in regulatory practice at Federal and State and Territory level is an ongoing Australian Services Roundtable priority. Our members recognise that industry self regulation similarly needs ongoing critical evaluation and assessment.

It is worth noting that the policy issues which touch the services sectors are typically among the hardest issues on the domestic political agenda. Competition policy, taxation policy, foreign investment policy, immigration policy, the recognition of standards and qualifications in other countries, and the management of public funding in sectors like health and education are some of the key issues. Australia has a strong economic interest in getting these issues right. Australian competitiveness depends on benchmarking its regulatory system with best practice in the world economy.

(5) Address the professional skills shortage

Another key factor which is likely to disadvantage Australia's future competitiveness in services is the emerging professional skills shortage. The Federal Government has begun to recognise and address the shortage of skills at the trades level. But there seems to be government - and in some sectors, industry - resistance to recognition of any need to address similar shortages arising at the professional level.

It is important to recognise that Australia will only be able to retain competitiveness in the knowledge-intensive services industries if the Australian higher education system can produce, and Australia can retain into the foreseeable future, an adequate supply of the world's best trained, tertiary educated, competitively priced professionals.

To ensure such outcomes, we need commitment to public investment in our higher education system as part of Australia's essential services infrastructure. This is most important for the future export and import-competing prospects for Australian professional, technical and other business services, including R&D services.

In all of these particular services industries, the fastest growing mode of export delivery is now Mode 1 i.e. delivery via international telecommunications links. This means that in some sectors neither services customers nor services providers need travel as much as previously. Increasingly global services markets can be serviced from offices located anywhere where international telecommunications links are sufficient. New technology has generated an irreversible trend often referred to by ICT professionals, for example, not as importing and exporting but as "offshoring" and "onshoring".

There is frequent reference in public discourse in Australia to the concept of "offshoring" but very little is said about the prospects for "onshoring". It is worth noting that recent

research has identified, even just within the ICT sector, a number of advanced ICT-enabled analytics services with real potential for “onshoring” to Australia, including:

Financial services

- Actuarial and insurance services
- Equity markets and mergers and acquisitions
- Credit research services
- Retail banking
- Branch location and closure analysis

Strategic business intelligence and research

Risk and quality management

- Business continuity planning
- ICT governance and compliance
- Quality management

Research and development

- ICT product design and development
- Customised research
- Clinical testing and global central reference labs

To retain and build local competitiveness in these and other potential growth sectors and ensure Australia experiences a growing future share of professional services “onshoring”, we need above all to address the emerging professional skills shortage.

There is currently inadequate public policy discourse underway on the interaction between higher education policy and tomorrow’s export needs of the rest of the Australian services sector. Universities are themselves rightly focussed on exporting educational services to attract foreign funds. Our R&D institutions are similarly increasingly attracted to exporting R&D services. There is an emerging role for Federal government in facilitating broader policy dialogue between the Australian higher education policy community and the professional bodies.

(6) Give much higher trade policy attention to services

i. WTO: improve transparency of services regulations

Despite the impasse in the Doha Round of multilateral negotiations, the WTO remains the single best vehicle by which Australia’s services industries can reach their full potential. The Australian services offer, despite its standstill rather than liberalising nature, was among the best offers on the Doha negotiating table and Australian industry is looking for reciprocal commercial gains. In general, the Doha offers on services were very thin and patchy in their sectoral coverage. ASR members, nevertheless, would rather reap what harvest there is than risk losing it altogether. We are encouraging the Australian Government in its efforts to revive and complete the Doha Round. If this does not prove possible, we will be looking for ways to avoid losing what progress has been made in the services arena, including on a plurilateral basis.

Australian Services Roundtable members experience considerable frustration with the Federal Government's approach to the WTO negotiations. Despite the fact that the potential gains would be much greater from services liberalisation, the Government still appears to give priority focus to agriculture. Australian Services Roundtable members understand that for many developing countries agricultural trade liberalisation is the central issue in the Doha Round and that Australia needs to play its part in helping to resolve the outstanding impasse on agriculture. But progress on services internationally currently seems to be completely hostage to progress on agriculture. And Australia's negotiating tactics give the impression that our own national priority in the Doha Round is agriculture.

The situation is sufficiently frustrating that ASR members are beginning to doubt the value of the conventional Australian trade policy wisdom with respect to "comprehensiveness" in trade negotiations. Strictly "comprehensive" means 'inclusive of all sectors' but in Australian trade policy usage it has tended to become a code word which simply means 'inclusive of agriculture'. In the WTO, an attachment to "comprehensiveness" has generally led to an Australian preference for a "single undertaking" approach to rounds of multilateral trade negotiation, whereby a deal on one aspect of the negotiating agenda, for example services or industrial goods can potentially be traded off against a deal on another aspect for example agriculture. But the stalling of the Doha Round specifically on agriculture is indicative of the fact that reciprocity across the sectors is not sufficient for a deal and we begin to suspect it is also no longer necessary.

A view is emerging that it might be more productive, or at least just as productive, to attempt a WTO sectoral deal on services alone. Early research results are tending to support industry anecdotal experience that services sector negotiations by themselves might provide at least as much potential scope as a comprehensive approach for effective reciprocity and deal making. Should the Doha Round reactivate, the ASR will be seeking as rapid a conclusion as possible and an outcome which includes commitment to an ongoing built-in-agenda requiring an early resumption of independent GATS negotiations, including to complete and improve the GATS framework itself.

The failure to date of the Doha Round has caused us also to think more broadly and more deeply about our multilateral objectives. Australian services exporters, being outward-looking, have much in common with Australian agricultural exporters. We each face artificial distortions in overseas markets which are uneconomic even for the communities they claim to protect. A higher level of transparency of government intervention in the business environment and a deeper focus on independent analysis of the costs and other impacts of this intervention would assist in building constituencies which would be more supportive of local reform. In the case of services, the interventions and distortions take the form chiefly of inefficient, i.e. opaque, burdensome, duplicative, mutually inconsistent and overlapping domestic regulations affecting who can participate in services industries and limiting in particular the scope of business for foreigners. The current paucity of WTO services offers from developing countries suggests that before any substantive progress can be made via international negotiations to reform the

regulatory environment in these trading partners, a prior step is required to increase the transparency of regulation in that market.

The ASR and the New Zealand Services Group have therefore joined forces with the National Farmers Federation and the Federated Farmers of New Zealand to sponsor the Tasman Transparency Initiative to strengthen the WTO. The initiative, which we have called on the Australian and New Zealand Governments to support, calls for the establishment, inside the WTO Secretariat of a unit oriented to promoting and facilitating the building, in WTO members, of institutions which will enhance the transparency of barriers to trade and investment in both the goods and the services sectors.

ii. APEC: facilitate business beyond the border

The key principles and objectives underlying the Tasman Transparency Initiative have relevance also in APEC. From a services industry perspective, Australia's key immediate objective in the region should be to free up the regional environment for doing business, including in the services sectors, so that business can operate relatively seamlessly as if in a single market across the region.

Improving the business environment requires an intensified regional effort to facilitate trade and investment via harmonisation and mutual recognition of standards and professional qualifications and convergence in other regulatory practices. From a business perspective, this requires, first and foremost, some kind of process to help improve the transparency of regulatory and other behind the border barriers. Appropriate domestic and regional institutions need to be built to support this process.

Improving the business environment also requires, of course, a concerted regional effort to eliminate, once they are made more visible, the most inefficient and most discriminatory aspects of these omnipresent regulatory barriers beyond the border.

Formal international trade negotiations are not necessarily the only international diplomatic vehicle by which regional barriers to trade in services can be jointly addressed. Addressing the barriers effectively also requires a degree of policy dialogue on regulatory best practice, and a degree of associated technical assistance and regulatory capacity building.

There is no doubt that the key to continued rapid economic growth and prosperity in the region lies in achieving the productivity gains which result from increased competition in the regional market. It doesn't really matter from a services industry perspective, however, whether APEC efforts in this direction are labelled as trade liberalisation, trade facilitation, micro-economic reform, regulatory reform, structural reform, services infrastructure development or regional investment initiatives. What does matter is that progress is made. That progress needs, importantly, to be accompanied by intensified efforts to improve corporate and financial governance across the region.

The Australian Services Roundtable expects APEC, under Australian chairmanship in 2007, to witness more determined progress with the central business priorities set out above and clearly reflected in APEC's "Busan Business Agenda" in 2005. To achieve this it will be necessary to streamline the somewhat meandering APEC agenda which now wanders well beyond the core Bogor goals of free and open trade and investment in the region. The Australian Services Roundtable looks forward to working closely with DFAT as well as with the Australian members of the APEC Business Advisory Council and the Australian National Committee of the Pacific Economic Co-operation Council (PECC) to focus Australian business attention on the APEC agenda for 2007.

iii. FTAs: focus on services and investment outcomes

The Australian Services Roundtable is an active consultation partner with DFAT and a variety of other government departments, notably the Department of Communications, Information Technology and the Arts and the Department of the Treasury with respect to the wide variety of services and investment related aspects of the Government's bilateral Free Trade Agreement (FTA) agenda.

Despite a strong perception in the business community that FTAs are largely motivated by geopolitical factors, ASR members have worked hard to input commercial perspectives both with respect to the potential choice of FTA partner countries and to help identify the barriers to services trade which should be addressed via the vehicle of an FTA.

In doing so, the ASR has been guided by the perspective that the introduction of new bilateral distortions in the global market place which are intrinsic to FTA negotiation, can only be justified if increased commercial activity will actually be able to take place as a result and if genuinely "WTO plus" outcomes can be achieved.

The ASR also encourages adoption of very liberal rules of origin for services and investment and implementation of bilateral services and investment commitments on an MFN basis wherever possible, including domestically.

In the services arena, ASR's preference for "WTO plus" outcomes necessitates the following ambitious approach;

- Detailed coverage of issues not yet taken up, or sufficiently taken up, on the WTO agenda, such as
 - competition policy
 - investment
 - government procurement, including especially in services
 - movement of natural persons
 - facilitation of mutual recognition of professional qualifications

- Depth of services and investment commitments that go well beyond current GATS schedules and Doha offers, preferably in the more ambitious form of a Negative List approach.
- Separate chapters of commitments, wherever possible, on individual services sectors of special export interest in the market concerned.
- Closer focus on Implementation of commitments rather than reassertion of principles on Intellectual Property and Standards and Conformance

Services issues in fact tend to dominate Australia's FTA negotiating agenda. This is partly because progress on services and investment has been so slow in the WTO. Australia's experience, however, is that in FTAs with developing country partners, services and investment liberalisation are not much easier to negotiate one-on-one than they are in the multilateral context. In every FTA negotiation in which Australia is currently engaged, services and investment aspects are lagging badly behind progress or potential progress on goods. This is because, for all the reasons outlined earlier in this submission, services markets typically have very high levels of government intervention, liberalisation of trade and investment in services tends to be highly politically sensitive and most developing country governments are not displaying the will to undertake the necessary regulatory reforms. It is also true that more services trade-related capacity building and technical assistance is required to build awareness and understanding of the costs and benefits of liberalisation in trade in services.

The FTA negotiating process is also important therefore in that it allows Australia to undertake a much deeper policy dialogue on services related matters, including what constitutes regulatory best practice, than is otherwise possible with non-OECD trading partners. This policy dialogue should over a period of time facilitate regulatory cooperation and harmonisation, carrying the promise of deeper economic and business integration over the medium term. Importantly, and this has become clear in many bilateral FTA outcomes in the services and investment area, regulatory best practice tends ultimately to need to be implemented on a non-discriminatory basis.

With respect to specific negotiations currently underway or in prospect:

China

ASR is strongly supportive of these negotiations. ASR members are most concerned to ensure that Australia's significant offensive interests in services and investment are not held hostage to more defensive manufacturing interests. Against that background, ASR is extremely disappointed by the current apparent go-slow in the FTA negotiations with China and the consequent increasingly bleak outlook for rapid commercial gains in services. China's commitment to the services and investment aspects of these negotiations is in particular doubt. Standards, intellectual property enforcement and restrictions on profit repatriation are other key priorities for the ASR.

Japan

ASR's emerging disaffection with the notion of "comprehensiveness" is such that ASR members might be able to consider supporting "services and investment only" type negotiations with Japan. ASR members would be seeking, however, much more ambitious outcomes on services and investment than have been apparent in any bilateral FTA type agreement that Japan has entered into to date.

ASEAN

ASR expectations of the services outcomes from the FTA are sadly but realistically modest. The ASEAN-5 are clearly lagging badly behind the newer and poorer ASEAN members in the extent of their services commitments in the WTO and the FTA negotiations provide a very important opportunity to draw to their attention the urgent need for reform. Indonesia is a potentially important services market for Australia and ASR members would support enhanced Australian government efforts to promote transparency of domestic regulation in Indonesia.

Malaysia

The negotiations on services, investment and government procurement are clearly very difficult. But Malaysia is an important and growing market for Australian services exports and ASR is strongly supportive of Australian Government efforts to deliver a robust "WTO plus" outcome.

Gulf Cooperation Council

ASR members in a variety of different services industries have strong existing and future commercial interests in the GCC markets. They also face a number of constraints on doing business in the GCC which could potentially be addressed via the vehicle of FTA negotiations. ASR is consequently supportive of the commencement of FTA negotiations with the GCC.

iv. Promote all 4 modes of services exports, including Australian offshore investment in services

Austrade is very active in the promotion and facilitation of Australian services export. Importantly Austrade gives appropriate attention to the small and medium sized firms which dominate the services sector. There is a gap, however, both in policy terms and in terms of administrative arrangements, with respect to facilitation of Australian investment abroad in the services sectors.

Government bodies such as Invest Australia are designed specifically to promote and facilitate investment into Australia. Axiss is oriented specifically, via its focus on the concept of 'regional financial headquarters' to facilitation of inward investment in financial services. Inward investment in services is often in fact a mode 3 services import into Australia. Insufficient reciprocal government effort goes into facilitating Australian

services investment offshore ie mode 3 services exports from Australia This gap needs to be addressed.

It would also be constructive to reorient and reinforce Axis, under the Treasury portfolio, to ensure a clearer focus on promoting exports of financial services, including of course by continuing to facilitate commercial presence in Australia of financial services firms with export capability.

Box 7: Alert

- Australia's share of global services trade has started to fall.
- It's time for a focussed all-of government services strategy.

7. Concluding Comments

Services is still the Cinderella sector in policy-making terms. The sector's dominant contribution to national employment and the balance of payments is insufficiently acknowledged both by government and by industry.

To the extent that we have any national approach to services industry policy - under the headings of trade, industry development, competition, investment, immigration, education and training, innovation and taxation – that policy is at best fragmented and unfocussed. The potential consequences are serious, whether it takes the form of failure to implement needed domestic reform or to exploit sufficiently the opportunities offered by international trade negotiations.

There is a major task ahead to market Australia as a source of highly competitive services. Our national strengths in other sectors do distract attention from the competitive services exports we have to offer. The fact that we are a small, very open economy with a volatile currency strongly influenced by commodity prices, also poses an extra level of complexity in management of services exports.

Several key services sectors are under-developed, posing longer-term threats to balanced growth. Deficiencies in appropriate infrastructure and resources for services industries are partly the cause of this, and require more concerted attention by government and business.

The rapid advancement of technology, and new business processes and structures to exploit it, are key drivers of change in services industries globally. Educational advancement in the developing world is another. The potential for transformation of services industries within current business planning horizons is substantial. The implications of this for Australian business need to be much better understood.

Services matter in their own right. Services also matter because they are pervasive. Best practice in provision of services in Australia will contribute undoubtedly to international competitiveness in all other sectors of the economy.

The Australian Services Roundtable is focussed on re-mapping public understanding of the Australian economy, to take greater account of the contribution of the services sector and to raise awareness of the need for change in our services business environment. For Australia to prosper in today's advanced global services markets, our services industries will need to be effective competitors at home and abroad, and recognised as such.

Appendix: Australian Services Roundtable Members

Corporates

Abbott Tout Solicitors
ANZ Banking Group
Australian National University
Cardno ACIL
Centre for International Economics
Conformance and Standards Assessment Services Pty Ltd
Corrs Chambers Westgarth Design Inc.
Division of Humanities, Macquarie University
Gavin Anderson and Company
Graeme Thomson and Associates
Gray Perkins Lawyers
Hassell Pty Ltd
Hawker Britton
Hunt and Hunt Lawyers
IBM Australia
Insurance Australia Group
Mallesons Stephen Jacques
Minter Ellison
Moulis Legal
National Australia Bank
News Limited
Northcote Management Services Pty Ltd
Qantas Airways
Riotinto Ltd
Sage Automation
SAI Global
Standards Australia
Stanley Street Pty Ltd
The Allen Consulting Group
The Cox Group, Architects
Trade and Environment Solutions Pty Ltd
University of Adelaide
VIP Home Services
Woodhead International

Government Agencies

Australia Council for the Arts
Australian Film Commission
Department of Innovation and Regional Development, Victoria
Division of Mathematics and Information Sciences, CSIRO
Education Adelaide
South Australian Department of Trade and Economic Development

Business Associations and Groupings

Association of Consulting Engineers
Australia and New Zealand Institute of Insurance and Finance
Australia/China Business Council NSW
Australia/India Business Council
Australian Bankers Association
Australian Communications Alliance
Australian Computer Society
Australian Electrical and Electronic Manufacturers Association
Australian Financial Markets Australia
Australian Telecommunications Users Group
Australian Tourism Export Council
Business Council of Australia
Council for International Trade and Commerce, South Australia
Council for the Humanities, Arts and Social Sciences
CPA Australia
Design Institute of Australia - South Australia
Engineers Australia
Environment Business Australia
Institute of Chartered Accountants in Australia
Interactive Entertainment Industry Association of Australia
International Chamber of Commerce, Australia
Internet Society of Australia
Investment and Financial Services Association
JAS-ANZ
Law Institute of Victoria
Law Council of Australia
Media, Entertainment and Arts Alliance
Music Council of Australia
Professions Australia
Royal Australian Institute of Architects