

Australia's Services Economy

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Trade & Investment in Services (TIISA)

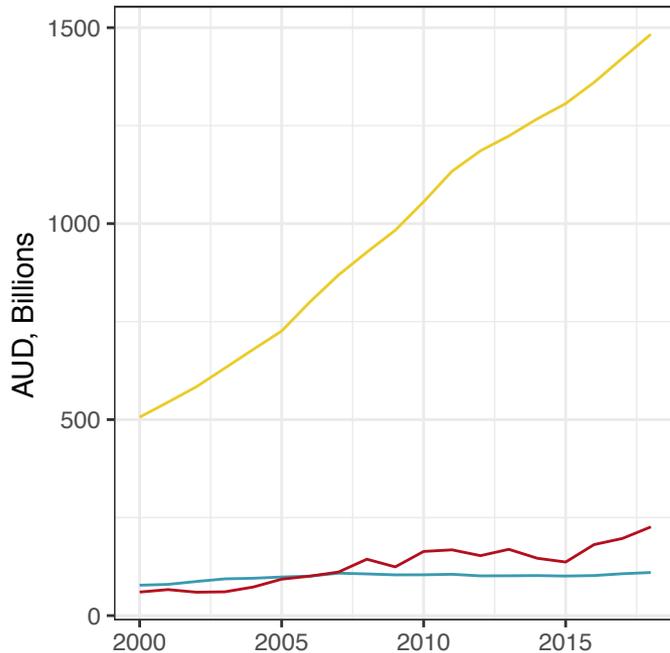
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The Services Economy

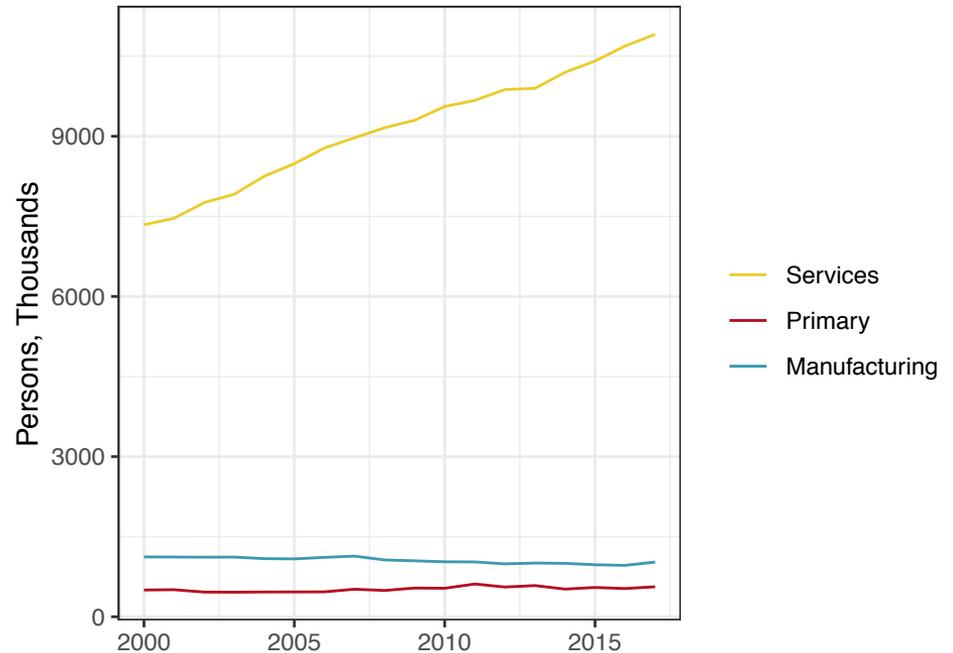
Services Value added as % of GDP & Employment in Services: Australia

Fig 1A: Sector Contributions to GDP



Source: ABS, System of National Accounts, ISIC REV 4

Fig.1B: Sector Contributions to Employment



Source: ABS, System of National Accounts, ISIC REV 4

**The Services sector now generates more than 80% of Australia's GDP.
Services industries now employ 87% of the workforce.
91% of the female workforce is engaged in the Services sector.**

Services sector participation in inward & outward FDI: Australia

Fig 2A: Sector Recipients; Inward FDI

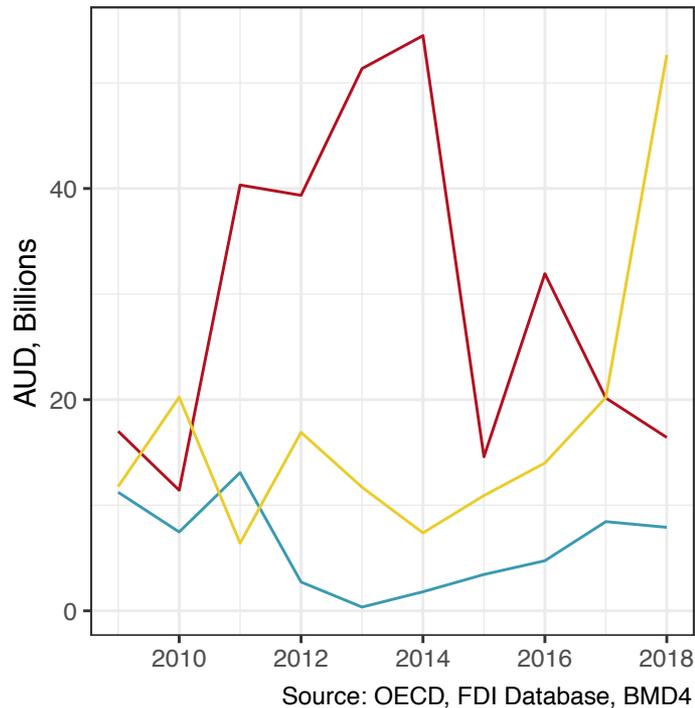
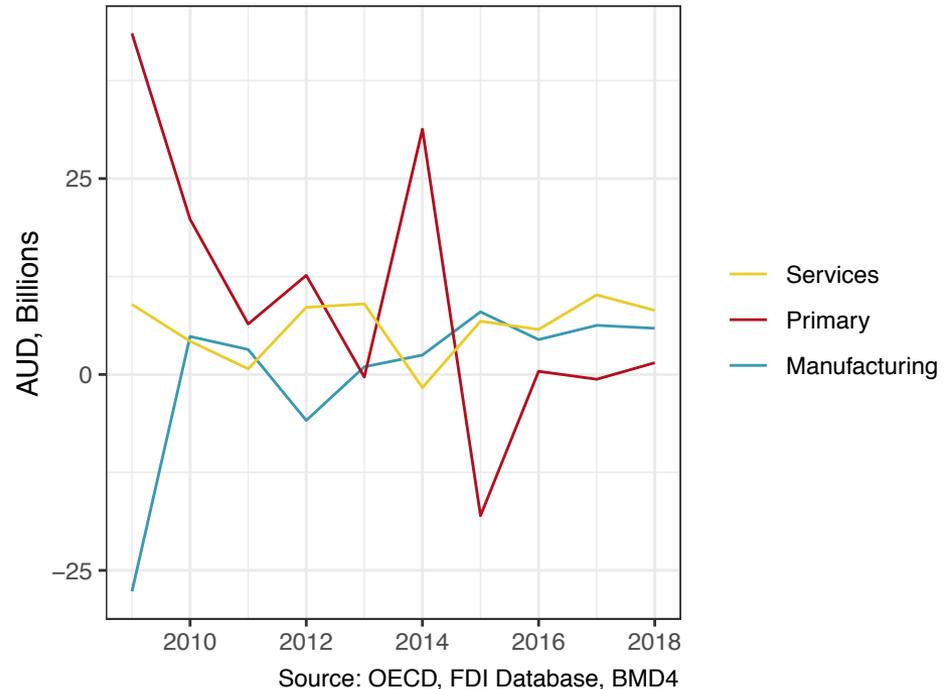


Fig 2B: Sector Recipients; Outward FDI



The Services sector now attracts more than 60% of Australia's inward FDI and receives more than 50% of Australia's outward FDI.

Foreign Affiliates Trade in Services (FATS) 2018-2019

Figure 1: Australia's Exports of Services by Mode of Supply

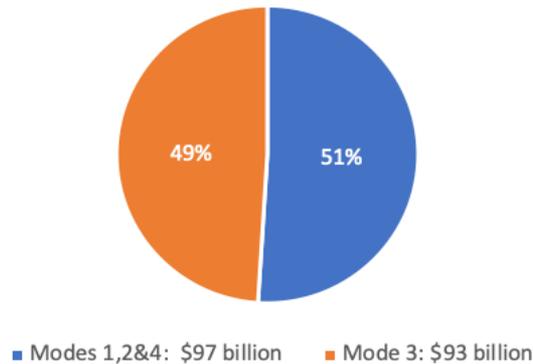
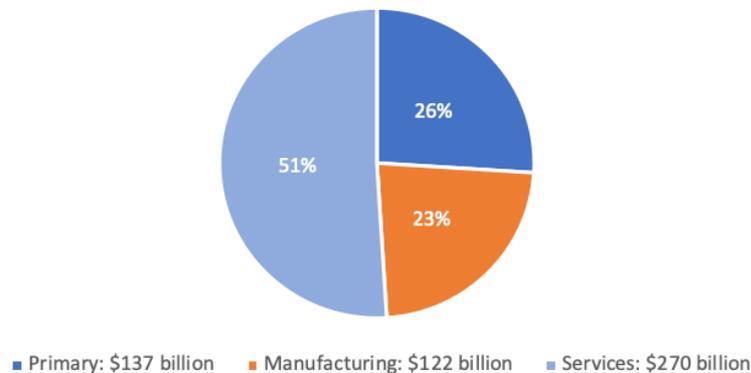


Figure 2: Sector Shares in Total Australian Equity in Australian-Controlled Foreign Affiliates



Trade in Services is defined in the WTO to take place via 4 modes of supply.

In the absence of other measures, outward FDI is a useful signal of exports of Services via commercial presence, such as establishing an affiliate in a foreign country to serve that local market.

Actual data for Australian Outward Foreign Affiliates Trade in Services (FATS) was released in 2020. It shows sales of services overseas by Australian foreign affiliates amount to nearly AUD93 b for 2018-19.

Insurance and financial services account for 48 % of these Services exports, other business services 20% and construction 12%.

For 2018-19, the Balance of Payments puts exports of Services at AUD97 b. Adding the FATS figure of AUD92 b for Services exports via commercial presence, **Australia's actual Services exports double. See Figure 1.**

Services Contribution to Productivity Growth: Australia

Fig 3: Sectoral Contributions to Productivity Growth



Source: OECD, Productivity Database, ISIC REV 4

Services Trade Performance

Services Trade Performance: Australia

Fig 4A: Sector Contributions to Australia's Gross Exports

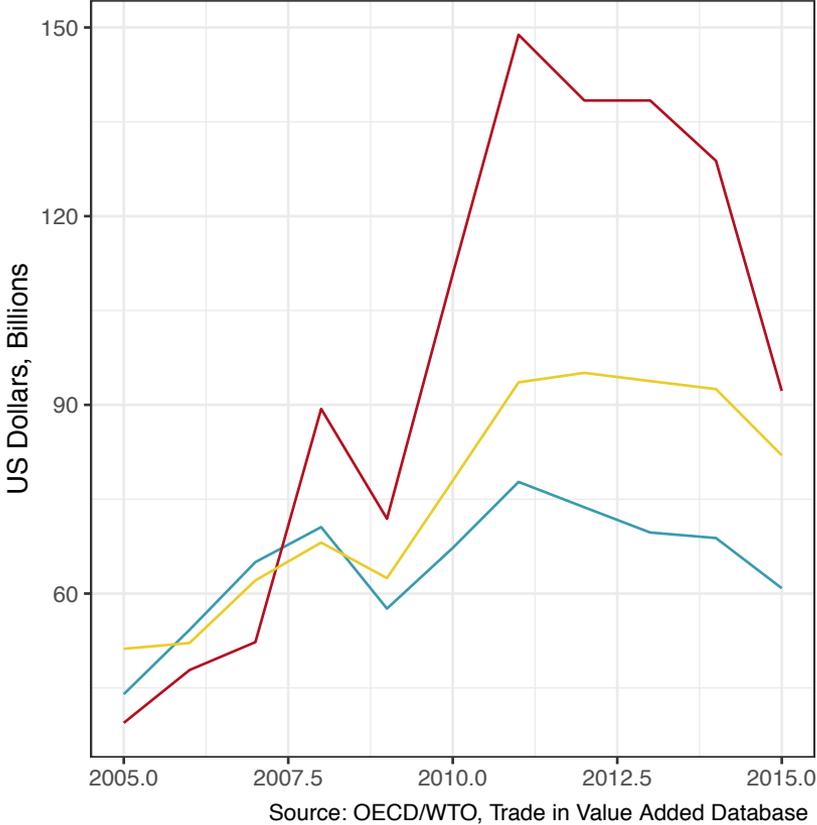
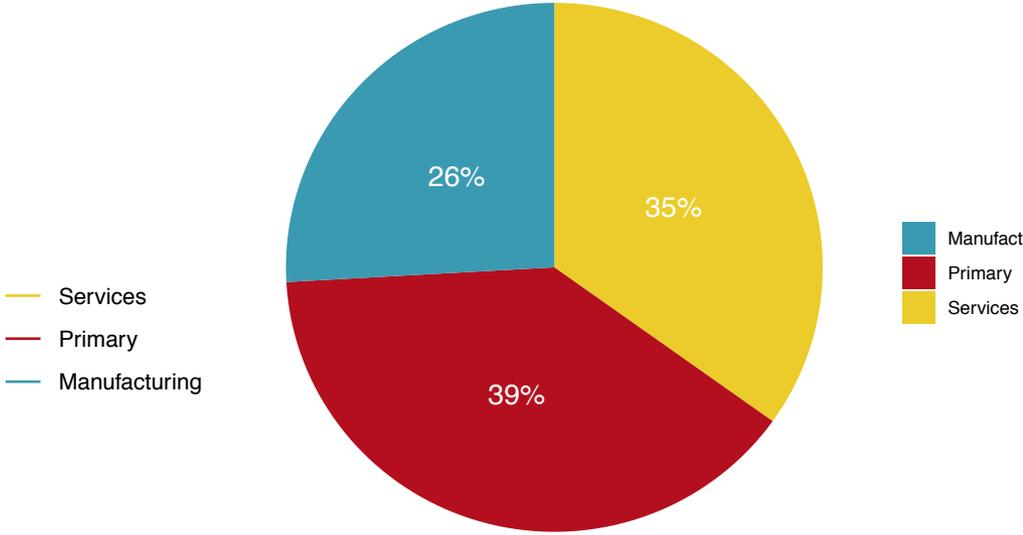


Fig 4B: Sector Shares of Australia's Gross Exports, 2015



Source: OECD/WTO, Trade in Value Added Database

Despite the dominance of Services in Australia's economy, when measured in traditional Balance of Payment terms Primary production seem to be Australia's major strength. Though their lead position in Australia's Current Account Balance has been steadily shrinking since 2011.

Trade in Value Added (TiVA data)

We now have more sophisticated ways to measure trade flows. The OECD/WTO Trade in Value Added database utilises Input-Output analysis to measure not merely the price of final products crossing borders, but which industries in which countries capture the value added which that trade generates.

Ultimately it is the generation of value added and not gross nominal amounts which contribute to living standards.

When the true source of the value added exported by different sectors is considered, Services dominate Australia's export portfolio just as they do other macroeconomic aggregates.

In fact, the mining boom helped Primary production close the gap with the Services sector, but never allowed it to truly take the lead in value added terms and the gap has now widened again.

Services have been the leading source of value added in Australian exports since well before the turn of the millennium

Fig 5A: Sector Contributions to Domestic Value Added Exports

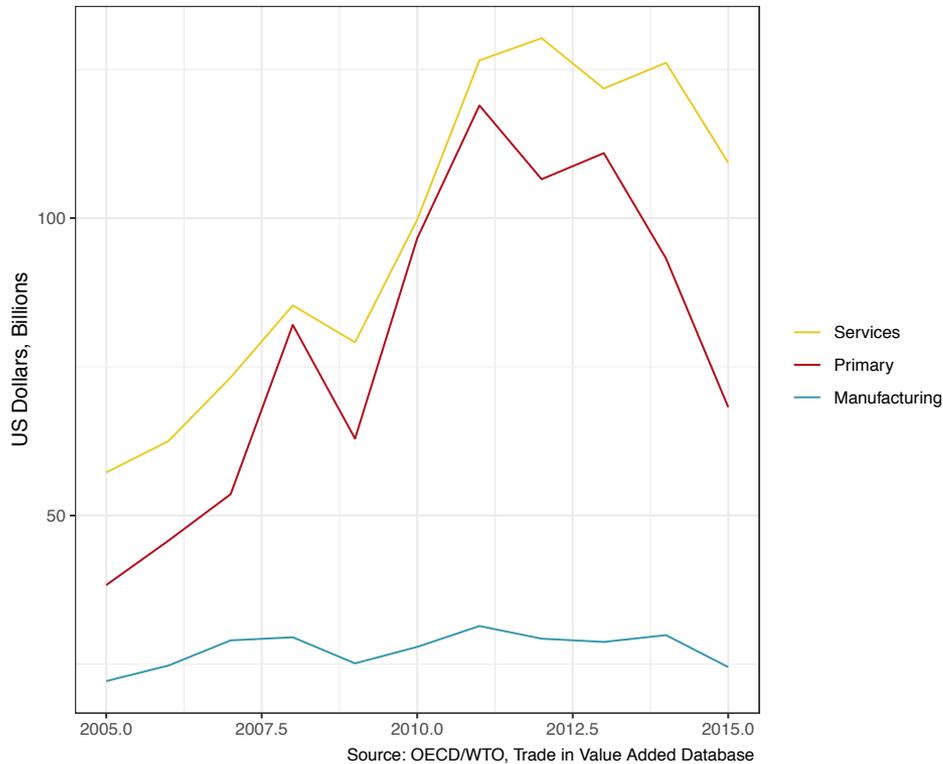
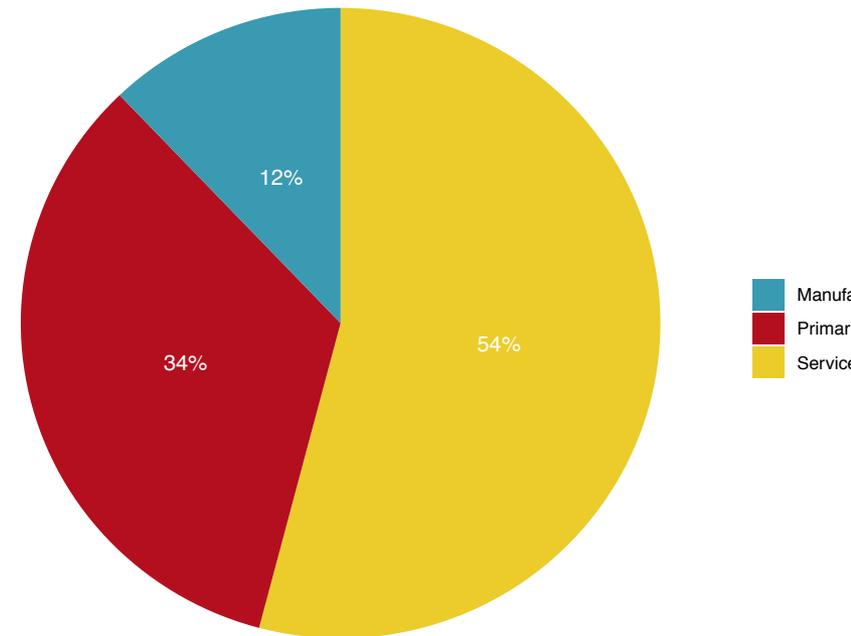


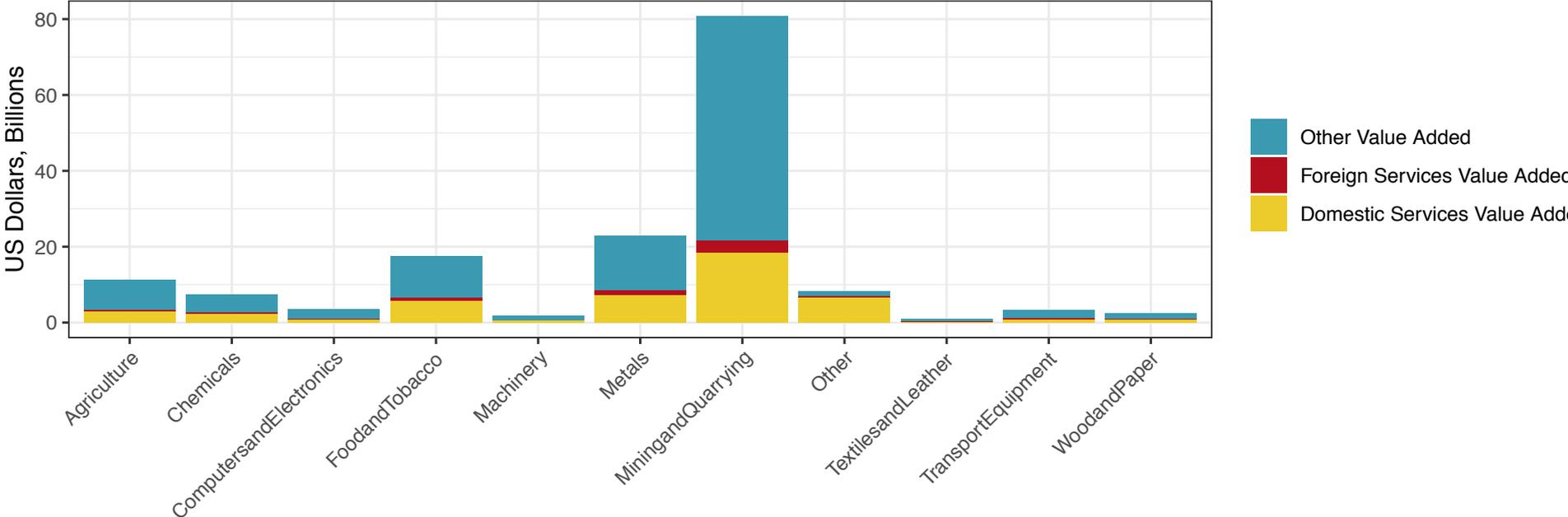
Fig 5B: Sector Shares of Domestic Value Added Exports, 2015



Source: OECD/WTO, Trade in Value Added Database

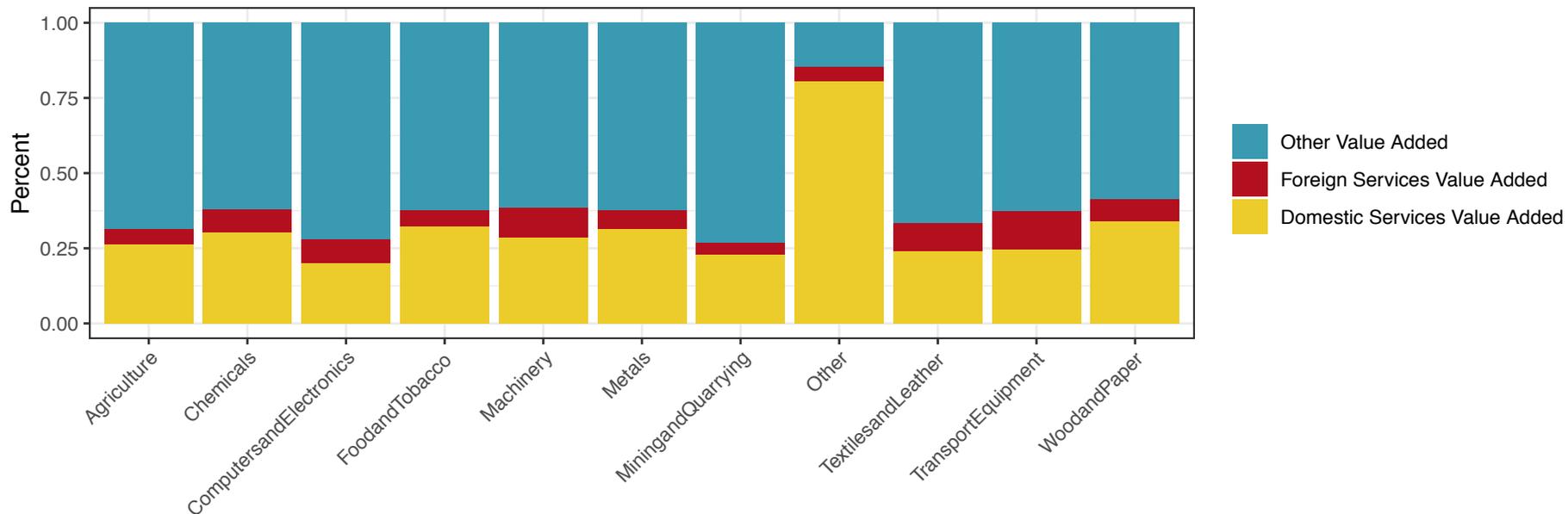
Services contribute nearly 40% of the value added of Australia's Goods exports on average (30% DVA & 7% FVA)

Fig 6A: Services Embodied in Australia's Goods Value Added Exports, 2015



Source: OECD/WTO, Trade in Value Added Database
 'Other' includes Repair and Installation

Fig 6B: Services Intensity of Australia's Goods Value Added Exports, 2015



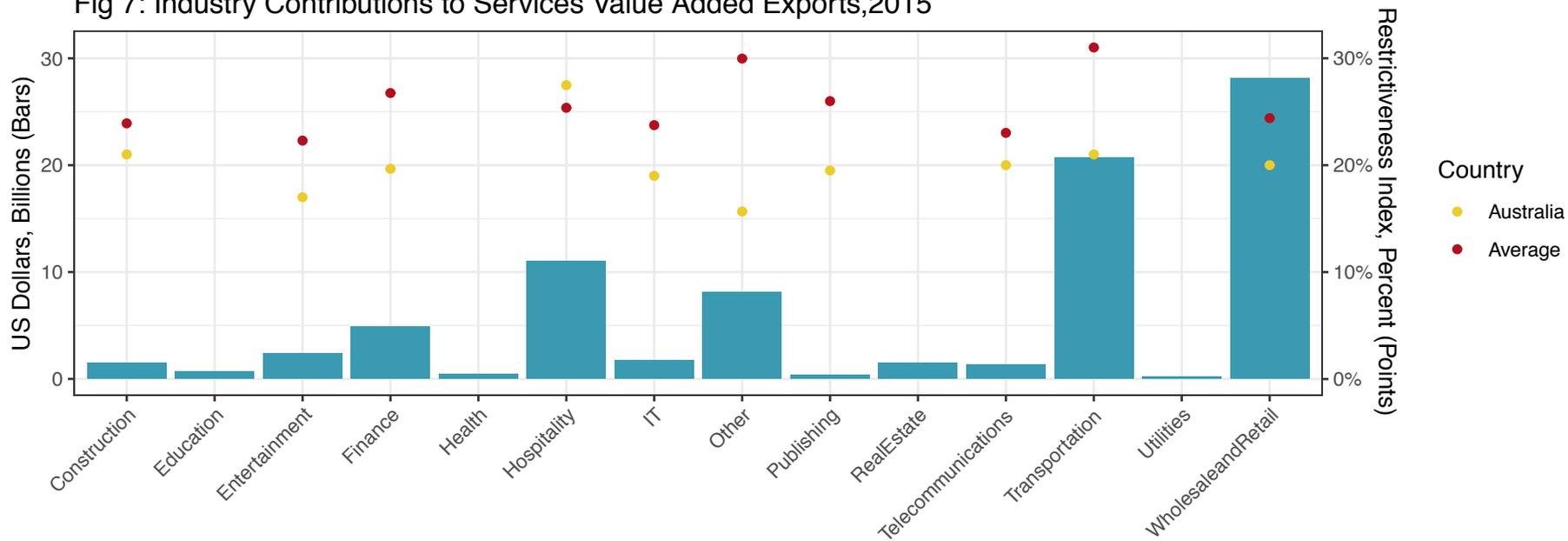
Source: OECD/WTO, Trade in Value Added Database
'Other' includes Repair and Installation

The largest contributor to Australia's Services value added exports is Wholesale and Retail, followed by Transportation, partly because these industries (chiefly sea Transport) also play crucial roles in Goods trade. Next largest is Hospitality (a proxy measure for Tourism along with tourist-related Air Transport). These are followed, in turn, by Professional and Business Services, Finance, Entertainment, IT, Real Estate, Construction, Telecommunications, Education, Health, Publishing and Utilities. This is not the story generally told about Education, as ranking with Tourism among Australia's top export performers – a story which arises by adding international student-related travel, transport and hospitality to the estimates for Education exports. These measurement conventions have vastly exaggerated the relative value added contribution of international education in the public mind and misdirected the attention of policy makers toward Education itself and away from the other services which play inextricable supportive roles in the Education value chain.

Complementary to the Trade in Value Added database is the **OECD's Services Trade Restrictiveness Index (STRI)**.

This draws on a database of regulatory measures across all OECD countries and 9 key partners to benchmark the Services market regulations against global best practice. The lower a country's or industry's index score the more open it is to international trade.

Fig 7: Industry Contributions to Services Value Added Exports, 2015



Source: OECD/WTO, Trade in Value Added and Services Trade Restrictiveness Databases
 'Other' includes Professional and Business Services

Australian regulatory and trade policy settings are more liberal than the data set average in almost all services industries, though in many cases the advantage is slim; improvement remains possible. Australia is relatively most liberal for Professional and Business Services and there appears to be some positive correlation with that industry's strong export performance. One major concern is that another services industry in which Australia has comparative advantage, Hospitality, is the one case where Australia is less liberal than the global average; this can also harm the competitiveness of other industries such as Education, Entertainment and Transportation.

Comparison with International Trends

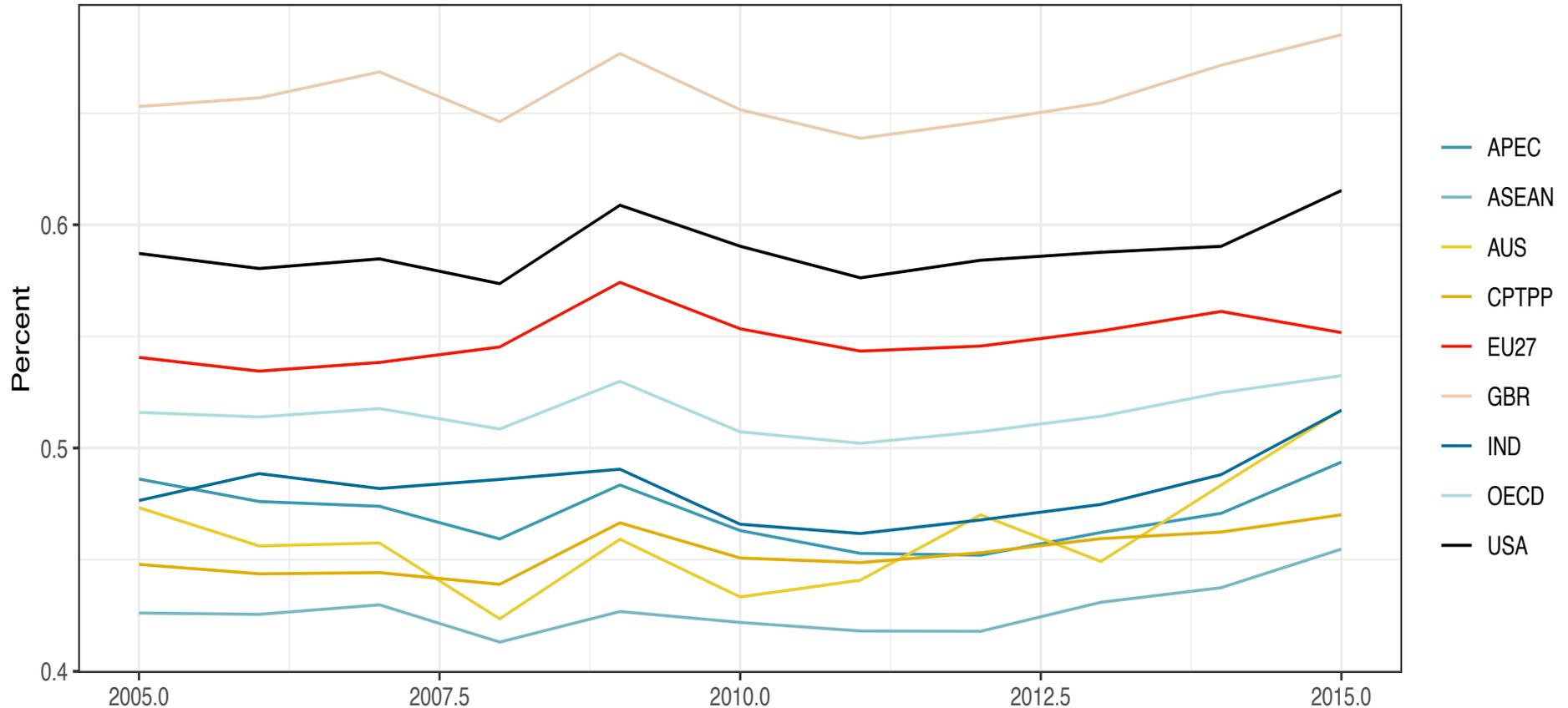


Held back partly by the effect of the mining boom, Australian Services providers were generating a lower portion of exports than those in any other similarly developed trading partner at the start of the millennium.

After no improvement between 1995 and 2008, the Services sector's share of total Australian exported value added increased 6% points to 46% by 2011 and another 6% points to 52% by 2015.

The Services sector share of value added exports increased by 13% between 2013 and 2015 and it is very likely that this position has been further consolidated since then.

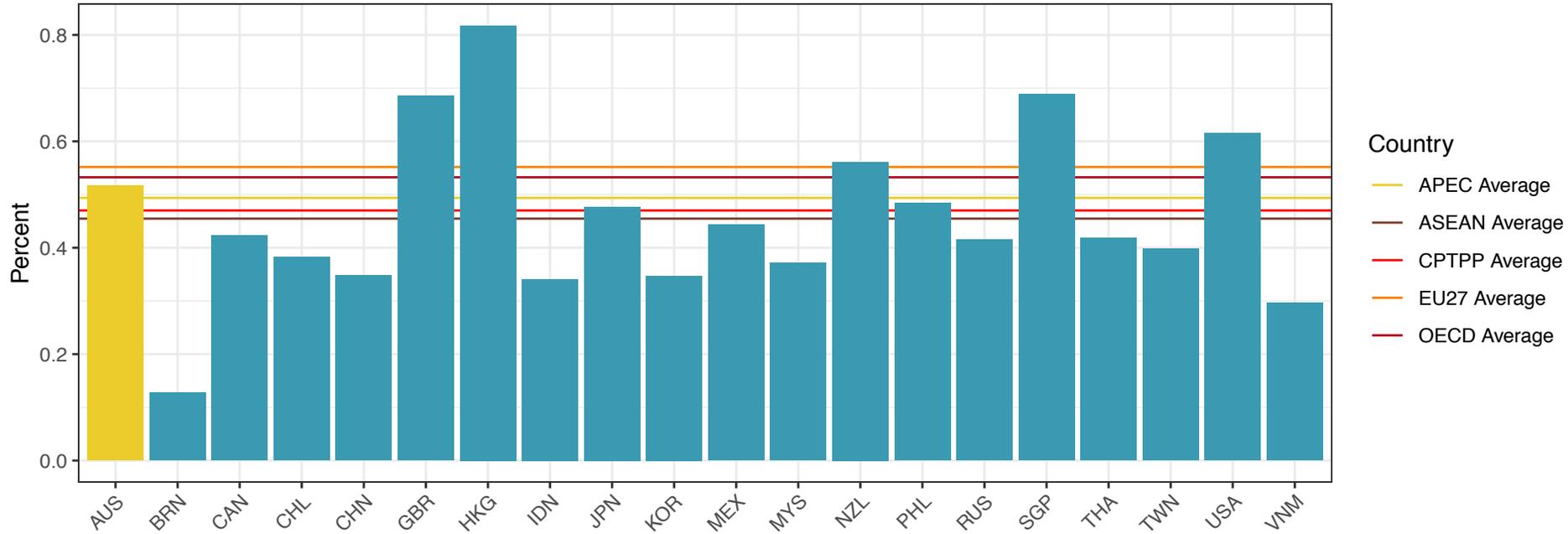
Fig 8A: Trends in Services Share of Value Added Exports



Source: OECD/WTO, Trade in Value Added Database

At 52%, Australian Services have increased over the last 5 years to now account for roughly the same portion of total value added exports as is the case for India. This exceeds the APEC average of 49% (held down by the ASEAN average of 45%) but is below the OECD average and well below the EU. Australia is 10-15 percentage points below global leaders such as Singapore 69%, the UK 67%, and the US 62%.

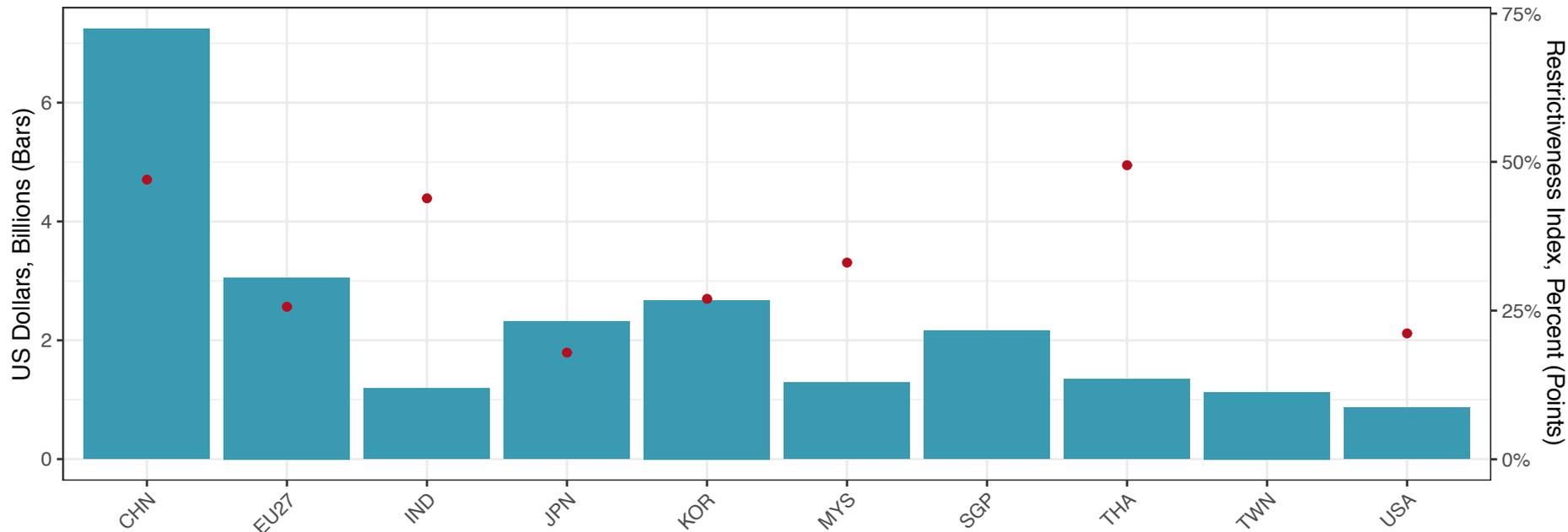
Fig 9: Services Share of Value Added Exports: 2015



Source: OECD/WTO, Trade in Value Added Database

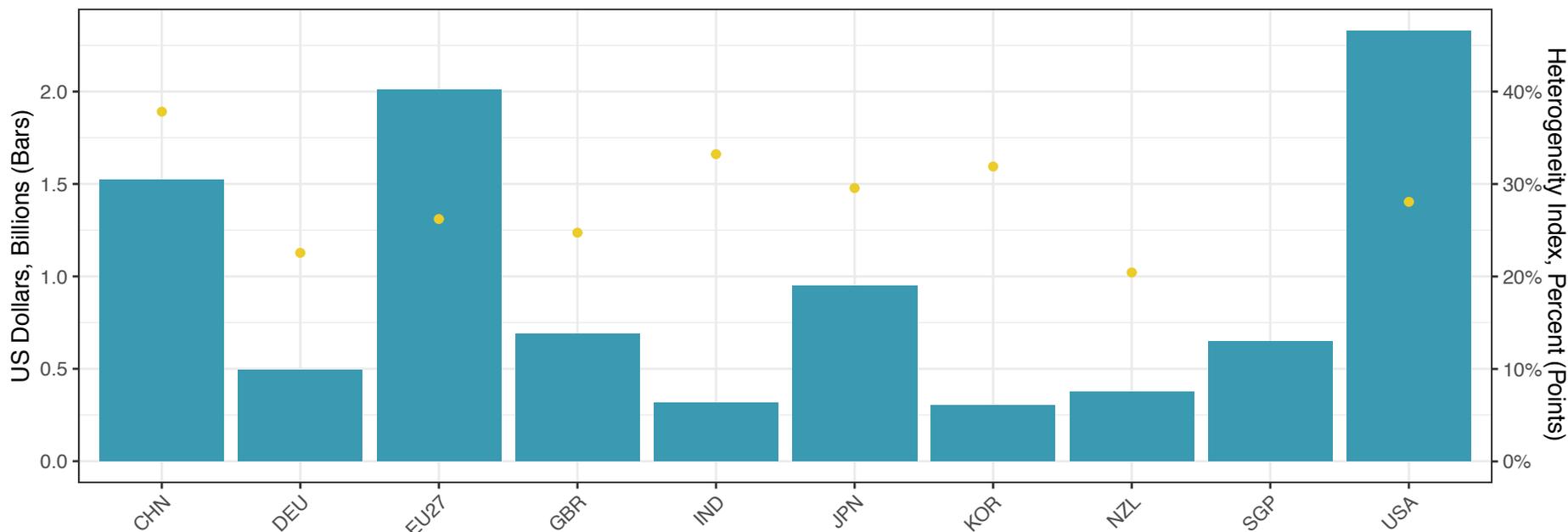
Australia has 10 **downstream GVC partners** all of which reexport, after their own domestic consumption, over USD1 billion of embedded Australian services value added to the rest of the world. Australian services value added in these 10 partners' exports add to USD23b. East Asian trading partners account for the vast bulk of this at USD18b. China is our single largest downstream GVC partner, with USD7.2 billion of imported Australian services value added in its own reexports to the rest of the world. The EU, then Korea, are our second and third largest downstream GVC partners, reexporting Australian services value-added of USD2.8b and USD2.7b respectively. (The UK reexports another USD500m of Australian services value-added.) Japan and Singapore both reexport well over USD2b, while Thailand, Malaysia, India, and Chinese Taipei all reexport over USD1b of Australian services value added -with the US at USD900m.

Fig 10A: Australia's Services Value Added in Partners' Total Exports, 2015



Source: OECD/WTO, Trade in Value Added and Services Trade Restrictiveness Databases

Fig 10B: Partners' Services Value Added in Australia's Total Exports: 2015



Source: OECD/WTO, Trade in Value Added and Services Trade Restrictiveness Databases

Similarly, Australia's total global exports contain a degree of foreign services value-added imported from **upstream GVC partners**. The US is Australia's largest upstream services partner with nearly USD2.5b of US services value embedded in Australia's total exports. The EU is next with USD1.7b, of which Germany accounts for USD500m. (The UK contributes an additional USD700m.) China follows closely behind the EU ie Australia's exporters of goods and services together import USD1.5b of Chinese services value added - and just under USD1b of services value added from Japan, USD600m from Singapore, USD400m from New Zealand and USD300m from each of Korea and India.

NB:The OECD Heterogeneity Index uses the regulatory data base behind the STRI to quantify the compatibility of trading partners regulatory regimes on a bilateral basis rather than comparing each to global best practice.

Revealed Comparative Advantage

The OECD findings show that 4 out of 6 of Australia's most globally competitive industries are Services. These 4 industries are

Hospitality
Other Business Services
Entertainment
Education

The following graphs show Australia's top 5 export destinations for these services; in all 4 cases, **China is Australia's top export destination**, essentially via Chinese visitors' consumption abroad.

Restrictions to foreign entry present by far the largest obstacle for all Australia's Services industries which enjoy global comparative advantage. Restrictions affecting movement of people also presents a significant obstacle with most of Australia's top trading partners.

The OECD STRI shows China as consistently more restrictive than Australia's other major trading partners when it comes to Services.

Fig 11: Hospitality, 2015

Australia's Services Value Added Embodied in Partners' Total Exports

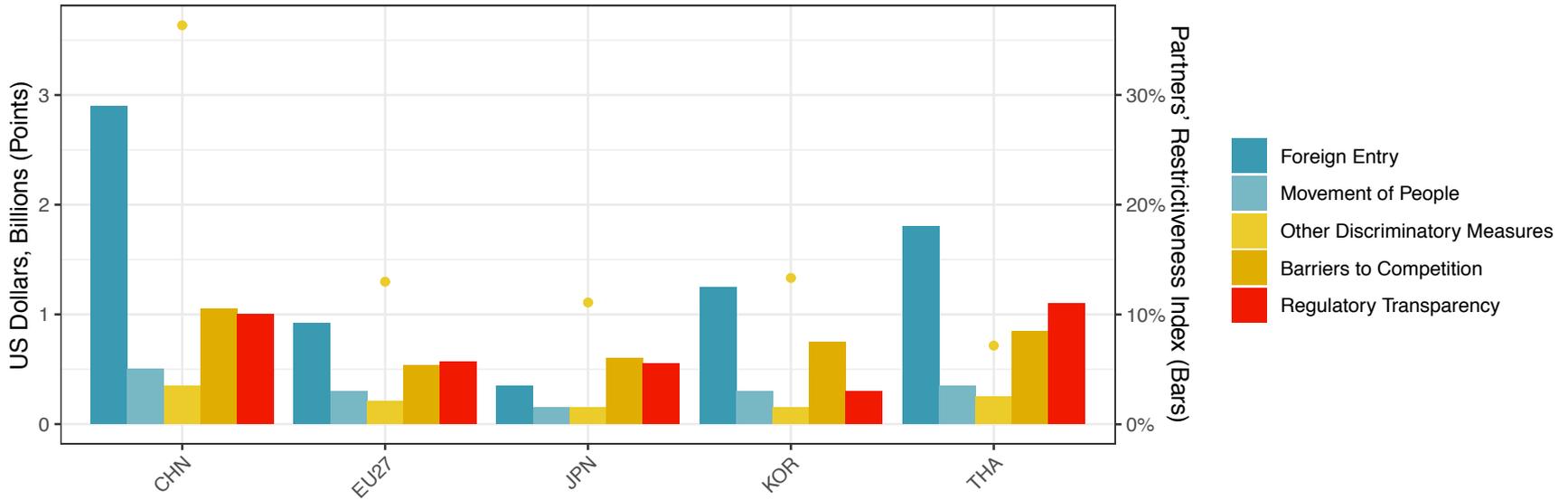
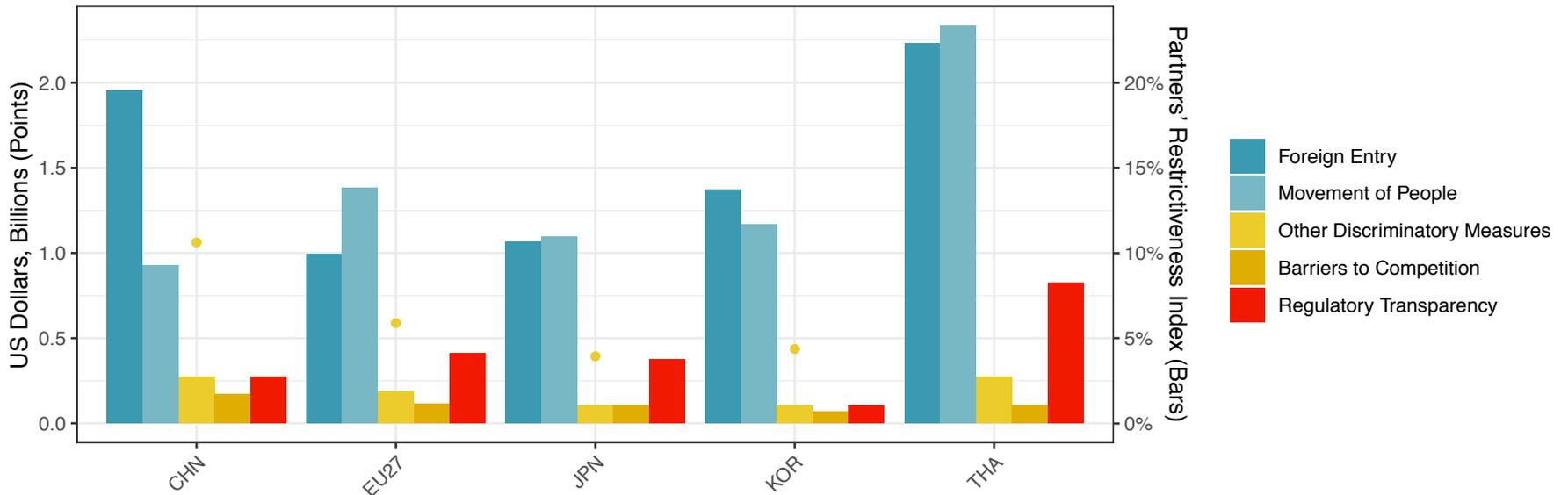


Fig 12: Other Business Services, 2015

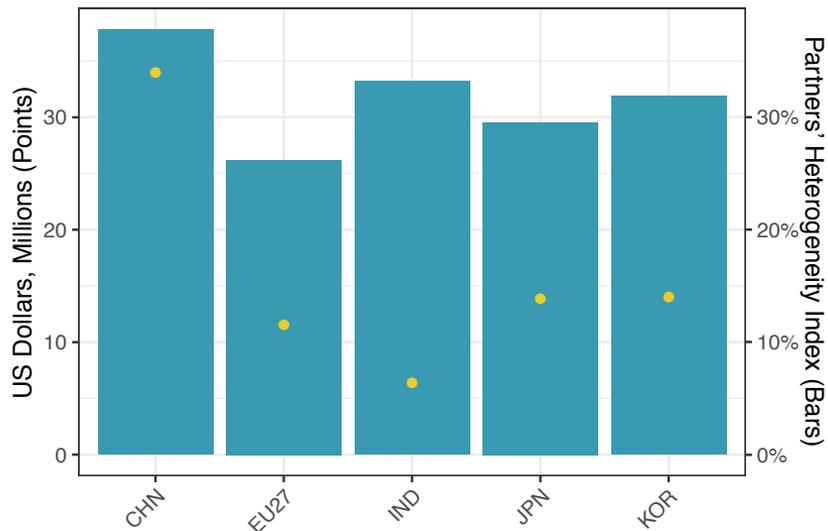
Australia's Services Value Added Embodied in Partners' Total Exports



Source: OECD/WTO, Trade in Value Added and Services Trade Restrictions Databases

Fig 14: Education, 2015

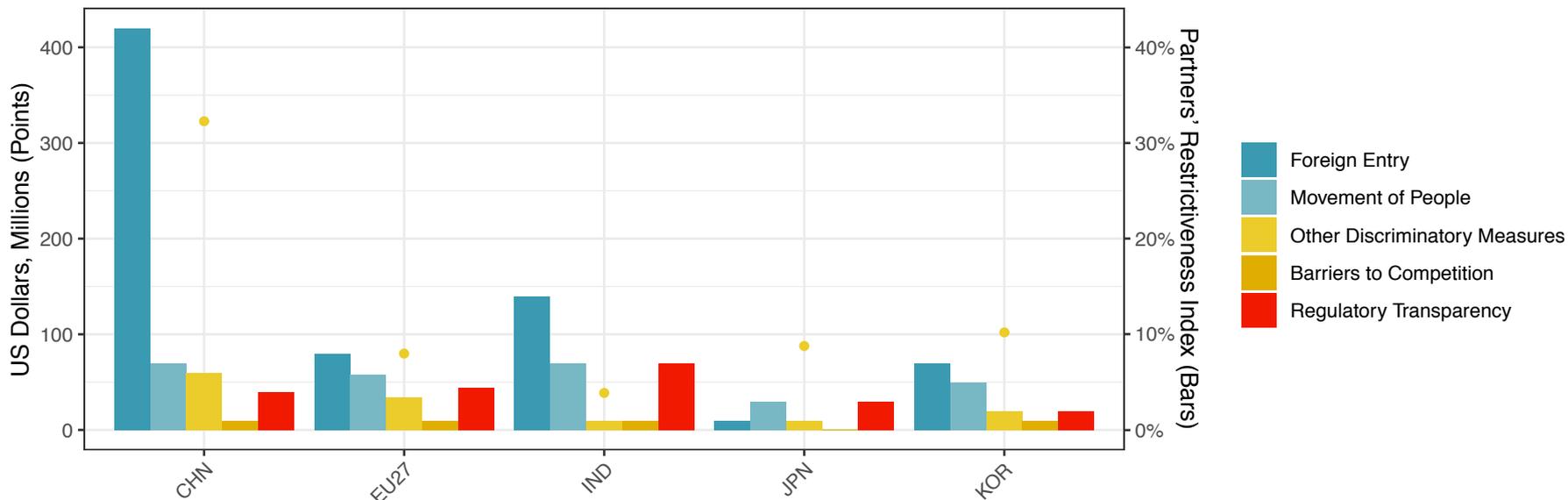
Australia's Services Value Added Embodied in Partners' Total Exports



OECD/WTO, Trade in Value Added and Services Trade Restrictions Databases

Fig 13: Entertainment, 2015

Australia's Services Value Added Embodied in Partners' Total Exports



Source: OECD/WTO, Trade in Value Added and Services Trade Restrictions Databases

We also look at the export of Services embodied in the two Goods industries, **Agriculture and Mining**, in which Australia has comparative advantage (the EU rather than China is the top export destination in these cases, followed by China).

Measured in value-added terms, 27% of exported Agricultural Goods, and 29% of Mining exports, are generated by Services.

Fig 15: Agriculture, 2015

Partners' Services Value Added Embodied in Australia's Total Exports

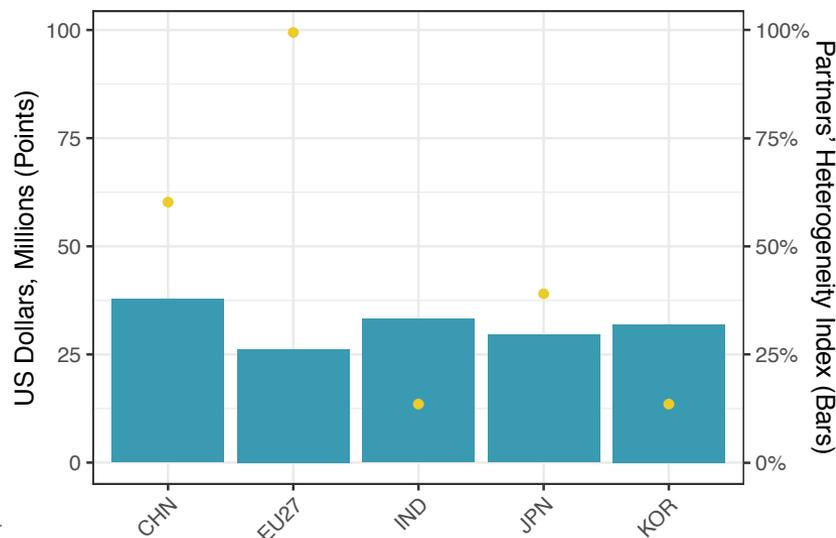
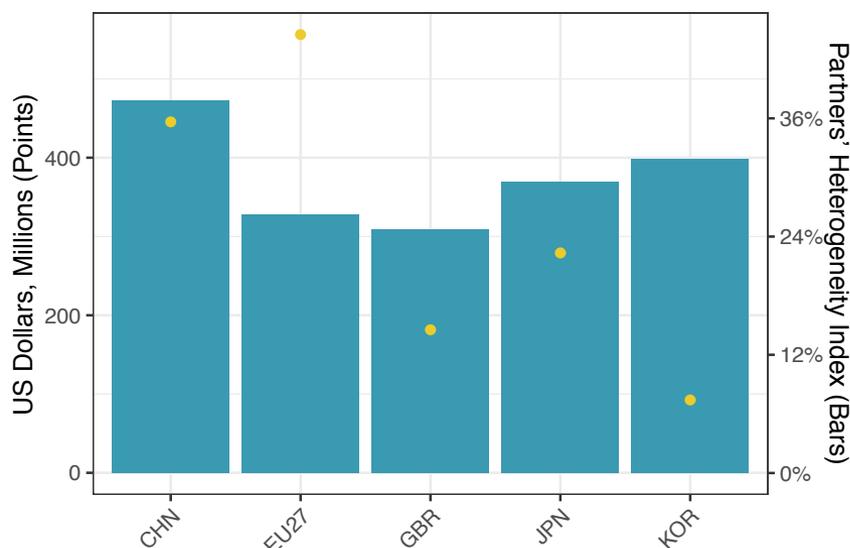


Fig 16: Mining, 2015

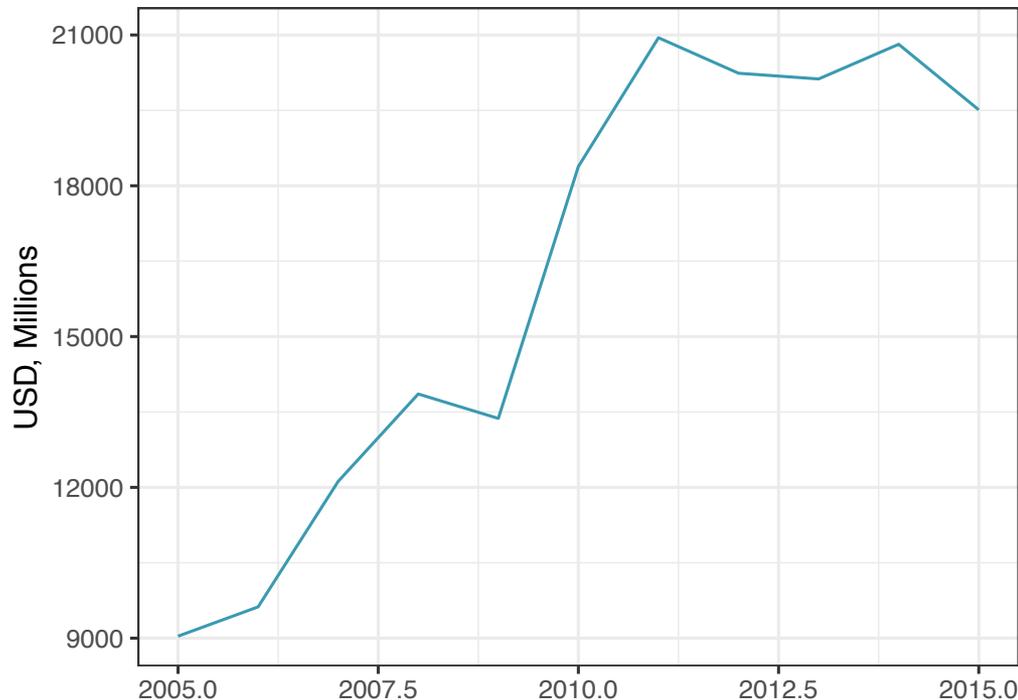
Partners' Services Value Added Embodied in Australia's Total Exports



The Future is Digital

Australia's Digitalisable Services exports grew 115% between 2005 and 2015. Growing rapidly from a low base, at nearly USD20 billion these services now make up 24% of all of Australia's Services exports.

Fig 17: Exported Digitalizable Services



Source: Own Calculations based on OECD Trade in Value Added Database

After doubling over 2005-10, Australia's exports of Digitalisable Services plateaued over the next 5 years. Why? We know there are relatively fewer binding commitments to liberalisation of trade in services via mode 1 (delivered across-borders e.g. by electronic means) than for other modes of delivery such as commercial presence or temporary movement of people. We also know that trade in digitalisable services is highly dependent on cross-border data flows, the freedom of which is under threat in jurisdictions of relevance to Australian services exports.

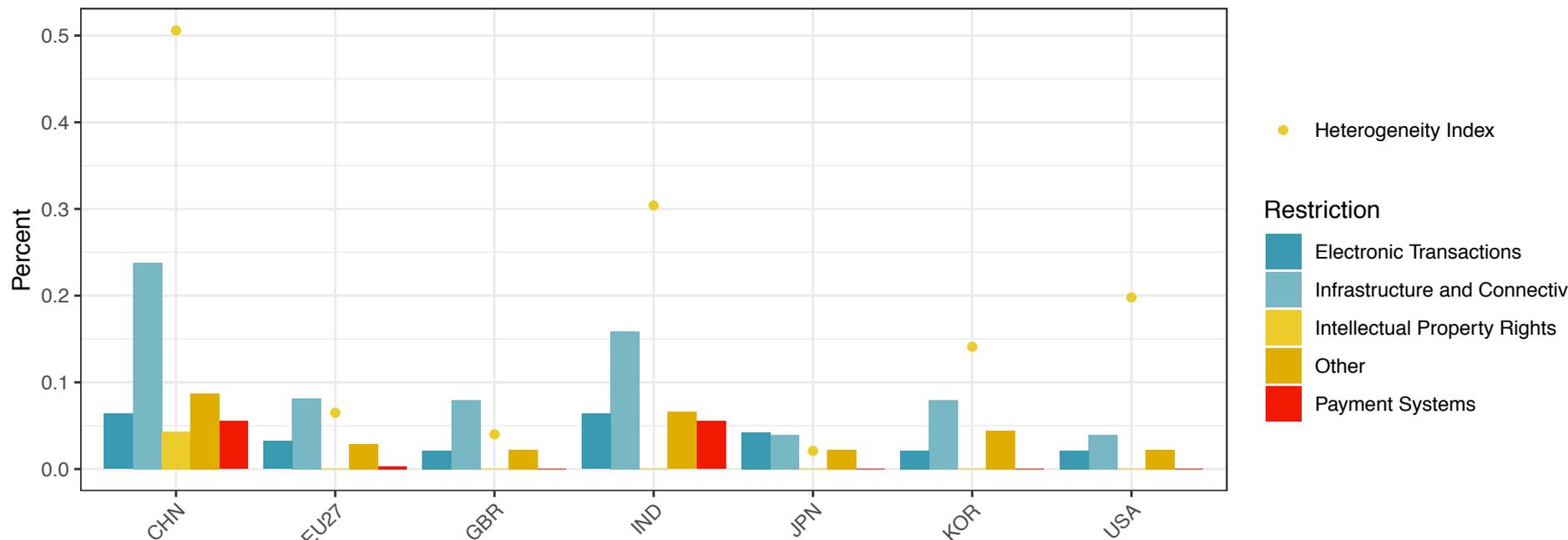
Actual Exports of Digitalised Services

The Australian Bureau of Statistics recently conducted research utilising supply and use tables (in a way analogous to the TiVA Input-Output based data) which focuses not on what is potentially digitalisable but on what in fact has been digitalised.

They found that in 2016-2017, 5.7% of Australia's GDP (AUD94b in value added terms) was generated by digital activities.

This would imply that only USD9b, of a potential USD20b in 2015, of Australia's value added exports were digitalised, a gap which on current trends is unlikely to shrink without active policy support.

Fig 18: Digital Services Trade Restrictions, 2019



Source: OECD/WTO, Digital Services Trade Restrictions Database

The digital technologies of the 4th industrial revolution are ushering in the next transformative wave of globalisation, offering the world's best chances for productivity growth and increase in global living standards.

But regulatory heterogeneity between Australia and its top trade partners is considerable. For international e-business to flourish, interoperability of regulatory regimes is becoming increasingly essential.

Impact of the COVID-19 Pandemic

2020 is likely to prove a point of some discontinuity in all international trade and investment. The Australian Bureau of Statistics temporarily ceased its series tracking the underlying trend in trade activity as it may be some time before this can be accurately estimated.

The WTO considers it highly likely that trade statistics for 2020 and beyond will show a substantial global drop in Services trade. Both globally and in Australia, the policy response to the pandemic involves prolonged restrictions on movement of people across borders. Exports of most Services are impacted to some degree by reductions in face-to-face Service supplier/client interaction. International tourism and international student and patient travel is ground to a halt. The impact on air transport is dramatic.

The WTO predicts that over the medium term, Services trade statistics will also confirm an intensification of trends apparent over the last decade. In particular, the shift to digital delivery of Services is accelerating. There will be no going back.

The WTO concludes, given the global dominance of the Services sector in the macroeconomic variables and its importance in facilitating economic growth, that Services, and the creation of conditions conducive to trade in Services, will be key to recovery from the pandemic-generated economic slowdown.
