

## **PROSPECTS FOR AUSTRALIA'S INTELLIGENT EXPORTS:** **SERVICES**

Opening Address by Senator the Hon Gareth Evans QC, Minister for Foreign Affairs, to the *Intelligent Exports and the Silent Revolution in Services* Seminar, Melbourne, Victoria, 6 September 1994.

---

As the Prime Minister put it last week at the national launch of this study, services are our economic oxygen: realising the enormous potential of services trade will be crucial to our economic future. With this study, unique in its scope, Australia has moved further ahead in its understanding of the services sector of the economy. I congratulate all those associated with the study, and particularly the 10 organisations which funded it and the management consultants responsible for the project, The LEK Partnership.

There are three key messages about services exports which I want to leave with you, messages which subsequent speakers will elaborate and discuss from a practical business viewpoint:

- first, Australia's services exports are already large - but they could be much larger;
- secondly, there is enormous growth potential in the international market for services; and
- thirdly, economic, social and technological change taking place in Australia today is setting us up for a boom in services exports.

As to the first point, Australia has already developed enormous capacities in services. We are the second largest service economy in the Asian region, with services accounting for over 70 per cent of our GDP and 80 per cent of our workforce. In Victoria alone there are nearly 2,300 service exporters - around one-third of the national total.

The Australian services sector has undergone a transformation during the last decade, producing a new generation of firms and business leaders. In large

measure as a result of the Government's continuing program of economic restructuring, sectors such as financial services, telecommunications, education and aviation have become more efficient, more competitive and more outward-looking.

The service exporters which have emerged from this decade of change are not just large companies. Far from it. The nation's service exporters are typically young, small and innovative. Their small and medium size allows them to be flexible and to adapt quickly to the needs of their customers. Some of these firms are among the world's most competitive, operating at the leading edge of their industries, using world best practices and the latest technology to tailor high quality products for overseas markets.

Our services exports are growing faster than most other sectors and accelerating: there has been, over the last 30 years, an average annual 13 per cent growth, but the average over the last 10 years has been 24 per cent per annum. Services now make up at least 20 per cent of our total exports, or \$16 billion: if you take into account so-called "embedded services", those that are associated directly with our manufactured and commodity exports, then the figure is at least double that.

Building on these bases, we can do much more. Just 1 per cent of service companies in Australia are actively exporting their services at present. And we export only 5 per cent of the services we produce. While this parallels the situation of Canada, is slightly ahead of the United States and more than double that of Japan, it certainly does not compare with the 69 per cent of total services exported by Singapore, the 19 per cent by Hong Kong or even New Zealand's 9 per cent. The LEK study recommends we should aim to double the proportion of services we export to 10 per cent by 1998: this would produce a more than doubling of our services export revenue to \$41 billion, and the creation of 186,000 new jobs.

The second message to take away today is the enormous market potential in the international arena of services. Everybody recognises the importance of services globally. The services sector is the fastest-growing in world trade, amounting to nearly one quarter of it (on conservative estimates), with the expansion being driven by a wide range of communications, professional, business and financial services. And the outlook for further growth is bullish. The General Agreement on Trade in Services (GATS) negotiated in the Uruguay Round will make services trade more predictable - having for the first time brought services trade

formally under the GATT umbrella - and has established the basis for further improving both the access of Australian services exporters to overseas markets and their ability to compete on an equal footing with other suppliers.

In our own region, the Asia Pacific Economic Cooperation (APEC) process, which brings together around half of the whole world's economic strength, has given priority to trade and investment facilitation, and is hopefully about to give a new emphasis, at the APEC Leaders' meeting in Indonesia in November this year, to trade liberalisation. Removal of impediments to trade in services sectors such as transport, telecommunications and tourism should increasingly become part of the APEC menu. Work is already under way to broaden the mutual recognition within APEC of professional qualifications in occupations such as accountancy, land surveying and engineering. One small contribution would be just to have shared approaches to the temporary entry of business personnel, and Australia has proposed this.

The LEK study suggests that Australian exporters will particularly look to Indonesia and China as their fastest-growing markets over the next five years. Indonesia is now developing an appetite for services that extends, for example, to education, banking, telecommunications and tourism. Indonesia is sending more students to Australia than to the USA, increasing our exports of education services. In line with broader deregulation of the economy, the Indonesian Government is keen to encourage more joint ventures with foreign banks. Cooperation in accountancy will be strengthened through a series of bilateral activities. Relations between professional associations in construction, engineering and consultancy will be fostered with a view to easing the process of accreditation in Indonesia.

China, is an already large and potentially enormous market for Australian service exporters. In 1992, China's import demand for professional and business services tripled, and China now consumes as much of these services as does Australia. Australia is capitalising on China's phenomenal growth: nearly \$3 billion of potential business resulted from the Australian China Trade and Investment Forum in June, much of this in services. And we will build on this outcome during Senator McMullan's visit to China, which starts today. Senator McMullan will be accompanied by high-level private sector representatives from key service industries such as telecommunications, insurance, construction and information technology. We hope to have this mission followed up by a small, high-level financial services business mission to China in early 1995.

My third message for today is that economic, social and technological change in Australia will create conditions for a boom in services exports which will allow us to tap into this global market. Over the last 30 years, the Australian economy has undergone an effective revolution, whereby services have increased from 50 per cent of GDP to over 70 per cent and accounted for all recent net job growth. Between 1989 and 1993, services created 445,000 jobs, while over the same period, jobs in manufacturing and extractive industries decreased. This hollowing out of employment in the traditional sectors of manufacturing and agriculture has meant that the future prosperity of many Australian workers is becoming increasingly dependent upon our service companies, particularly the large number of small, risk-taking companies. And growth in services will depend heavily on the export of services.

New communications technology - particularly optic fibre cable, and with it the much touted vision of the 'information superhighway' - will be a powerful stimulus for our services exporters. The major telecommunications carriers, Telstra and Optus, have ambitious plans for investment in an optical fibre network taking in millions of homes in the next few years. Many of the new telecommunications networks in the Asia Pacific region will also use optic fibre, creating the potential in the future for electronic exports of a wide range of services. Already Telstra is second in size in the region only to Japan's Nippon Telephone and Telegraph and is the major supplier of telecommunications systems to Vietnam, a recent major entrant into the market in the Philippines, and involved in innovative joint ventures with companies from Thailand, Kuala Lumpur and Vietnam to install an undersea optical fibre cable system linking those three nations. Globally the world market for information technology alone is estimated to almost double from around \$550 billion today to \$1,000 billion by the year 2000.

The Government's policies will help strengthen the chances of our services companies enjoying success in world markets. In the *Working Nation* White Paper, Prime Minister Keating set out comprehensive policies that will help Australian firms, including service providers, enhance their basic capacities to make them able to compete at the highest level of commercial excellence, including:

- training initiatives to lift the skills of the least skilled in our workforce and to engender further productivity improvements;

- tax initiatives to encourage private investment in small and medium sized enterprises and the location of regional headquarters in Australia;
- improvements in access to finance;
- the encouragement of innovation through a more generous R&D tax concession, a program assisting small and medium sized enterprises to commercialise new technology and a national network for technology access and diffusion;
- giving industry better access to the Government purchasing market; and
- extension of the Export Market Development Grants scheme to include single service tourism providers.

The LEK Study brings to our attention some highly important facts which we might have half known but which are now laid out comprehensively and systematically: that Australia has a highly-skilled, well-educated workforce capable of taking advantage of opportunities in global services markets; that government can help by creating the right economic environment and the right support program, as we have; and that companies need well thought-out plans and export strategies to succeed.

Our aim - both in government and business - is to encourage more service providers to seek out and capitalise on those export opportunities. In turning the national spotlight on services, this study will help us all help each other, and give new momentum to a sector whose prosperity is crucial for the whole country's future.

\* \* \* \*