



‘A 2020 VISION FOR AUSTRALIA’S SERVICES ECONOMY’ – AN ACCI ISSUES PAPER FOR PARTICIPANTS AT THE 2020 SUMMIT AND THE BROADER COMMUNITY

Introduction

The 2020 Summit to be held on 19 and 20 April 2008, has been convened by the Prime Minister of Australia, Hon. Kevin Rudd MP, as ‘an important initiative to harness the best ideas for building a modern Australia that is ready for the challenges of the 21st century’.

The Summit is designed to help the government shape a long term strategy for the nation’s future – covering the economy, the nation’s infrastructure, our environment, our farmers, health care, indigenous Australians, the arts, national security, how we improve our system of government, and how we strengthen our communities and ensure nobody is left out of Australia’s future.

It is important for industry to contribute constructively to the work of the summit, and to remind participants and the broader community that many of the good ideas that may come out of the Summit will not be capable of implementation or able to be sustained unless we have a globally competitive economy throughout the decade to 2020.

All of our industry sectors that contribute to a diverse and generally well functioning economy are vitally important to our nation. Our economic base needs to be continually strengthened, beyond the wealth being generated by our resource industries.

In a world of global competitiveness there are few, if any guarantees.

With manufacturers having to increasingly focus on high quality niche markets, and agriculture being climate reliant, a flourishing and broadly based services economy is essential.

Australia needs a vision for its economy where, by 2020, many small and medium businesses in the service industries see a natural future competing globally, not just locally or nationally. This could be, for example, by winning more contracts for professional services performed in Asia and elsewhere, or Australian small entrepreneurs using technology and intellectual capital to design and create globally sought after products.

Foundations Have Been Laid

The foundation for achieving this has been laid with the economic restructuring of the 1980’s and 1990’s, and the growth of knowledge and technology rich small and medium businesses.

The next steps in fostering the services economy must be taken. Impediments to the efficient functioning of service industries need to be identified, and addressed on a whole of government basis. Investment in technology and skill development is as important for entrepreneurs, as it is for students and employees.

ACCI is currently undertaking a major study of the services economy, and has established a national services industries committee to progress this task. The product of this work, a Service Industries Blueprint, will complement a suite of policy papers already produced by ACCI. It will be designed to help the services economy interface with Government and identify barriers to growth.

Other current ACCI blueprints are available at www.acci.asn.au.

The importance of these issues is recognised by governments and also on a cross party basis. The Hon. Dr. Craig Emerson MP was appointed in December 2007 as the Rudd Government’s Minister for Small Business, Independent Contractors and the Service Economy – the first time that a Ministry has specifically been framed by reference to the service industries.

Australia's Services Sector

Australia has always been a service-based economy representing approximately 50 per cent of GDP in 1904. However, public attitude has not always reflected this fact, and this continues today. From 'riding the sheep's back' to 'the world's quarry' the importance and significance of services has not been reflected at the political, business or community level.

The importance of the services sector, and the trade in services, to the Australian economy should not be underestimated.

It is not widely recognised that services dominate the Australian economy, accounting for 78 per cent (or some \$A550 billion) of our national output, and 84 per cent of all jobs (about 8.2 million people).

However, this economic contribution figure is likely to be an underestimate, given that many services are embedded within manufactures, mining and agriculture – for example the aluminium industry would use utility (such as electricity) as well as transport services.

The services sector is not a homogenous sector of the economy and therefore cannot be dealt with as a whole. As a reflection of the services sector's diversity, employment ranges from high pay full-time employment to lower pay part-time employment. Skills in the services sector also range from high skilled requiring beyond secondary school education, to lower skilled positions.

Developed countries have all experienced a rise in the importance of the services sector in their economies while other sectors have deteriorated in importance. This deterioration has largely been due to shifts in consumption patterns, rising incomes and the rise of low cost labour intensive industries in developing countries. While production in the services sector has increased, so too has its importance to the labour market.

Trade in Services

Trade in services is the fastest growing component of international trade. Between 1985 and 2000, the value of world exports of services increased by just over 9 per cent a year, compared with around 8 per cent for goods exports¹.

The trade in services is often regarded as a poor cousin to the trade in manufactured goods, but in reality it is becoming increasingly important, especially to Australia.

1 McLachlan, R., Clark, C. and Monday, I. 2002, *Australia's Service Sector: A Study in Diversity*, Productivity Commission Staff Research Paper, AusInfo, Canberra.

There is much scope for future multilateral, regional and bilateral trade liberalisation talks to achieve some real progress in this area provided that negotiators are committed to removing trade barriers that are often opaque and embedded in government regulations, practices and standards.

Services are also an important part of our export performance, with services' share of total exports increasing from around 16 per cent in the early 1970s to 23 per cent in the early 2000s - totalling more than \$A37 billion in calendar year 2005.

Looked at another way, over the past 30 years Australia's services exports have grown at trend rate of around of 7 per cent per annum, well ahead of the comparable figure for manufactured exports.

The biggest services export income earners by sub-sector are tourism (more than \$A18 billion in 2004/05), education (\$A 7.5 billion), and a variety of business and professional services (also \$A 7.5 billion).

Changing International Markets and Competitors for Australia's Services Sectors

At the same time, our main services export markets appear to be changing, away from western industrialised nations toward greater emphasis on markets in Asia.

For example, while services exports to the United States grew strongly in the 1990s, they have declined over the past five years, as have those to the United Kingdom, our second largest market.

By contrast, our services exports to New Zealand, Singapore and particularly to China have grown strongly – in the latter case from \$A380 million in 1995 to nearly \$2.5 billion (or by a factor of six) a decade later.

While little known, we also earn services export income from Australian-affiliated or owned companies operating abroad.

Figures produced by the Australian Bureau of Statistics (ABS) estimate the sales of services by affiliates of Australian companies operating abroad totalled more than \$A65 billion in 2002/03, the great majority of which (over \$A 59 billion) were sales in the host economy.

Whilst it is difficult to get precise figures on such sales, most Australian affiliates abroad are located in the United States of America (USA), the United Kingdom (UK) or New Zealand (NZ).

Prominent Australian companies with substantial direct presence in foreign markets include Flight Centre (in the travel industry), Brambles (transport and related services) and Westfield (property management).

Service Exporters Face the Same Trading Conditions as Manufacturers

The Australian resources sector today is experiencing a boom in demand for its products, particularly from China, India and Japan. Market economies then channel resources such as labour away from the manufacturing, services and agricultural exporting sectors towards the mining sector (the resource movement effect). Given the capital-intensive nature of Australia's mining industry, labour movements away from other sectors of economy are less acute.

Furthermore, additional income from a terms of trade shock will increase expenditure on non-trade goods (spending effect). This in turn increases the demand for labour in the non-traded sector, again pulling resources from exporting sectors.

Both these effects lead to the reallocation of resources from the services and manufacturing industries to the mining industry or the contraction of the non-performing tradeable sector.

While the plight of manufacturing is often discussed and reviews sought on policy responses, the services sector gains far less attention and consequently political and policy resources.

Services Will Continue to Grow in the Future

Services will grow into the future. The shift in consumer demand towards services and away from goods will continue. As incomes increase, the demand for some services increases by more than the increase in income. This is referred to as the income elasticity of demand. As Australians become more prosperous, their demand for services such as tourism, recreational activities, medical services and financial services expands considerably.

Regulation and Services Growth

The growth in the service sector can be put down to many influences. However, it is important to examine the differing contexts in which this growth is occurring. For example, some accounting, legal and consultative service growth may be driven by excessive government regulation, and not direct market needs.

Which part of the business services sector is being driven by organic growth and which is being driven by external compliance is a critical issue for Australia's economy welfare. A lot of discussion has occurred lately around the issue of excessive regulation and its cost to the economy.

Given the current competition for labour resources it is vital that firms are competing for workers based on economic demands and not excessive government regulatory demands.

Providing Services With an Environment to Grow

Providing the services sector with efficient industrial relations, taxation, skills and regulation environments should be seen as a priority for improving Australia's international competitiveness. This allows producers to most efficiently deal with an adverse operating environment of any nature.

While the present operating environment experienced by tourism and education may encourage some to argue for specific policy responses, it is the overall economic framework that will create efficient markets and provide the necessary incentives to invest and innovate.

Access to efficient and world class technology and skills development is vitally important for small and medium businesses in the service industries, especially those in regional and rural Australia.

Conclusion

The Australian services economy has to be a key driver of productivity growth in the next decade. The sector accounts for 78.6 per cent of Australia's economic activity, 84 per cent of jobs, 22 per cent of exports and approximately 55 per cent of Australia's small businesses.

Recent productivity growth in services has varied and given the diversity of the sector this is not surprising. However, a significant number of service industries over the past decade have recorded strong growth, and we must ensure that this growth continues.

Many of the barriers to future productivity growth in the services sector are opaque and come from deeply embedded government regulations, practices and standards as well as from Australia's highly onerous taxation system. These hurdles to growth must be addressed as they constrain how and where business is done, and at worst discourage services from being delivered.

Access to world class technology and skill development among service industry entrepreneurs is necessary if we are to engage in global competition across the sector.

Consideration should be given to how skills for the service sector will be provided. Short term solutions such as the importation of labour need to be considered but the long term capability of the education and training system to meet professional and vocational skills needs should be the focus of any strategy developed.

Access to skilled labour is currently the most pressing issue confronting the sector and new ways must be explored to address the movement of people in, within and out of Australia as the ageing of our population continues. One idea ACCI will be taking to the summit is that we follow New Zealand's lead and use Free Trade Agreement negotiations with China and India to secure a permanent skilled labour supply.

Innovation is the other key area that needs to be addressed if we are to see Australia become a world leading services economy. Businesses in the knowledge intensive services sector have contributed significantly to Australia's productivity growth over recent years and incentives must be provided to guarantee our future competitiveness in this area. Australia must become smarter and with the right level of support the services economy can lead the way.

Australia needs to value and foster its economic development and continuously look to ways in which we can strengthen our economy, and all the established and emerging industries that operate locally, nationally and globally.

A strong economy and a diverse industry base makes for a cohesive society with good living standards. Our service industries and small and medium businesses play a vital role, and with national policy that supports entrepreneurship and risk-taking these industries can look optimistically but also realistically towards the future.

ACCI - LEADING AUSTRALIAN BUSINESS

ACCI has been the peak council of Australian business associations for 107 years and traces its heritage back to Australia's first chamber of commerce in 1826.

Our motto is "Leading Australian Business."

ACCI is the ongoing amalgamation of the nation's leading federal business organisations - the Australian Chamber of Commerce, the Associated Chamber of Manufacturers of Australia, the Australian Council of Employers Federations and the Confederation of Australian Industry.

Today, membership of ACCI is made up of the State and Territory Chambers of Commerce and Industry together with the major national industry associations.

Through our membership, ACCI represents over 350,000 businesses nationwide, including over 280,000 enterprises employing less than 20 people, over 55,000 enterprises employing between 20-100 people and the top 100 companies.

Our employer network employs over 4 million people which makes ACCI the largest and most representative business organisation in Australia.

Our Activities

ACCI takes a leading role in representing the views of Australian business to government.

Our objective is to ensure that the voice of Australian businesses is heard, whether they are one of the top 100 Australian companies or a small sole trader.

Our specific activities include:

- Representation and advocacy to governments, parliaments, tribunals and policy makers both domestically and internationally.
- Business representation on a range of statutory and business boards, committees and other fora.
- Representing business in national and international fora including the Australian Fair Pay Commission, Australian Industrial Relations Commission, Australian Safety and Compensation Council, International Labour Organisation, International Organisation of Employers, International Chamber of Commerce, the Business and Industry Advisory Committee to the Organisation for Economic Cooperation and Development, the Confederation of Asia Pacific Chambers of Commerce and Industry and the Confederation of Asia Pacific Employers.

- Research and policy development on issues concerning Australian business.
- The publication of leading business surveys and other information products.
- Providing forums for collective discussion amongst businesses on matters of law and policy affecting commerce and industry.

Publications

A range of publications are available from ACCI, with details of our activities and policies including:

- *The ACCI Policy Review* - a regular analysis of major policy issues affecting the Australian economy and business.
- Issue papers commenting on business' views of contemporary policy issues.
- Workplace relations reports and discussion papers, including the *ACCI Modern Workplace: Modern Future 2002 2010 Policy Blueprint* and the *Functioning Federalism* and the *Case for a National Workplace Relations System* and *The Economic Case for Workplace Relations Reform* position papers.
- Occupational health and safety guides and updates, including the *National OHS Strategy* and the *Modern Workplace: Safer Workplace Policy Blueprint*.
- Trade reports and discussion papers including *Riding the Indian Elephant* and *Riding the Chinese Dragon*.
- Education and training reports and discussion papers.
- The *ACCI Annual Report* - providing a summary of major activities and achievements for the previous year.
- The *ACCI Taxation Reform Blueprint: A Strategy for the Australian Taxation System 2004-2014*.
- The *ACCI Manufacturing Sector Position Paper: The Future of Australia's Manufacturing Sector: A Blueprint for Success*.

Most of this information, as well as ACCI media releases, parliamentary submissions and reports, is available on our website - www.acci.asn.au.

ACCI MEMBERS

CHAMBERS OF COMMERCE & INDUSTRY

ACT and Region Chamber of Commerce & Industry

Business SA

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Victorian Employers' Chamber of Commerce & Industry

NATIONAL INDUSTRY ASSOCIATIONS

ACCORD

Agribusiness Employers' Federation

Air Conditioning and Mechanical Contractors' Association

Association of Consulting Engineers Australia (The)

Australian Beverages Council Ltd

Australian Hotels Association

Australian International Airlines Operations Group

Australian Made, Australian Grown Campaign

Australian Mines and Metals Association

Australian Newsagents' Federation Ltd

Australian Paint Manufacturers' Federation Inc

Australian Retailers' Association

Live Performance Australia

Master Builders Australia Inc.

Master Plumbers' and Mechanical Services Association Australia (The)

National Baking Industry Association

National Electrical and Communications Association

National Fire Industry Association

National Retail Association Ltd

Oil Industry Industrial Association

Pharmacy Guild of Australia

Plastics and Chemicals Industries Association Inc

Printing Industries Association of Australia

Restaurant & Catering Australia

Victorian Automobile Chamber of Commerce