



# regional development: the role of governments

**i**n early 2003 the Federal Government will receive a major report on regional business performance and impediments to employment and enterprise growth in regional Australia. This is a major opportunity to draw together into an integrated plan for the regions the key drivers for regional development. Amongst the central issues the report must deal with is the role of governments in fostering the growth of regional businesses.

The most important role that governments have to play in regional development is to create the conditions for rapid and sustainable growth and remove impediments or heavy-handed regulations that are not only unnecessary but also counterproductive in achieving community objectives.

In that environment, business does respond to profitable opportunities offered by an open, flexible economy able to adjust to changing conditions.

Change and structural adjustment are permanent features of the modern economy, and with the entire world now both the market for our produce and the source of our inputs, the changes regional Australia faces have origins far beyond our shores.

In many parts of regional Australia, new enterprises and industries are replacing those in decline. There is evidence of the natural processes of economic change and some communities are succeeding and prospering.

But where industries in decline are not being replaced there are major adjustment costs that must be borne. It would be inequitable if these costs were fully borne by those in regional communities who have found their livelihoods disappearing through the forces of global change, forces well beyond their own control.

## I N S I D E

**Fundamental Reform of Higher Education a Must.** There needs to be broad debate into the issues and policy choices required to make Australia's higher education system a world leader. The Review must focus on higher education's contribution to Australia's economic and social development. It is an opportunity to draw from lessons learnt from reforms made by governments and industry to vocational education and training. The Review must also take full account of business and community expectations of the higher education sector. PAGE 6

**The General Agreement on the Trade in Services.** The World Trade Organisation's General Agreement on the Trade in Services (GATS) is being subjected to a deliberate misinformation campaign by critics with various hidden agendas. It would be unfortunate if these misrepresentations were to become accepted and undermine a valuable international agreement to liberalise the trade in services that holds out substantial economic benefits for developed and developing countries. PAGE 10

Clearly no answer is to be found in governments propping up regional communities through public works and massive subsidies. Only the regeneration of self-sustaining communities, made viable through the location of profitable firms and industries in their midst as a result of decisions made by those firms and industries themselves, is worth consideration. The central question of regional policy asks is: how can this be achieved?

The findings of a study undertaken by the OECD and presented to the Regional Australia Summit in October 1999 help to formulate the answer. The study showed that the challenges facing regional Australia are common to regional communities worldwide. Conventional regional development policies that prop up inefficient enterprises have universally failed to reverse decline in regional communities.

Thus, the essential aim of public policy should be to create the conditions that are conducive to business development by improving the productive linkages between the local community, government and business.

The ultimate aim must be to make these communities self-sustaining. This will only be done if governments focus on what is needed to make regional communities productive and competitive, and provide that framework.

In the end, it will be up to each community to think about the nature of the specific problems it faces and then, working with others both in business and in government, to craft suitable and sustainable outcomes.

There is strong business support for greater emphasis being placed on the underlying structural capacity of regions, long-term planning and the development of productive linkages because they are necessary to give regional communities a greater sense of confidence and businesses greater certainty in planning for the future.

### **Inter-Governmental Co-operation**

Governments can facilitate regional planning and priority setting, and together (meaning at all three levels), ensure that their collective resources are applied effectively and efficiently – minimising duplication and red tape. This will not occur unless there is agreement between the Commonwealth, the states and local governments on overall strategies and priorities, information is shared amongst them, there is a more cooperative approach to resource allocation, and a seamless system to deliver services is introduced. From a business perspective, firms are unconcerned which government is responsible for a task; their interest is in sensible, sustainable measures delivered efficiently and effectively.

In November 2000 Commonwealth, State and Territory Regional Development Ministers and the Australian Local Government Association met in Canberra and agreed on a framework for cooperation and guiding principles. They committed themselves to:

- minimising duplication and overlap
- encouraging communities to set their own priorities
- cooperating with each other

- cooperating with the private sector
- using existing systems wherever possible
- building on the competitive and comparative advantage of regions
- consulting with each other wherever possible where new programmes and services are being developed.

The meeting agreed that substantial funds needed to be applied to improving and developing infrastructure in regional Australia, and that infrastructure is a joint responsibility of the Commonwealth, the states and territories and local government.

They agreed that all governments are responsible for creating the appropriate regulatory, taxation and business support environment to facilitate the development of infrastructure.

Ministers resolved to maintain the dialogue with a view to establishing a framework in which a range of regional development issues may be canvassed and appropriate strategies considered.

Specific recommendations were developed by a special taskforce of senior officials, established after the first meeting of all spheres of government in March 2000.

It was undertaken to provide further reports on the progress of implementation.

This inter-governmental meeting was of significant interest to business. The communiqué committed all three tiers of government to work together and

make substantial progress in the areas where action was agreed.

It is a great disappointment that no further Ministerial meetings have been held since November 2000, nor to our knowledge have any progress reports been made publicly available – despite the stated commitment to report on progress. If the lack of progress reporting is an indication that little or no progress has been made in almost two years since that meeting then that is a matter of profound concern.

**Information Gathering and Dissemination**

Governments also have a critical role in gathering and disseminating information to assist communities and businesses in their decision making and application of resources. In all of the information and analysis published on regional development there has been little available data that look specifically at regional business performance and at what influences regional business activity. In the data that are available there are large gaps in information and analysis.

On a range of issues, official statistics are not disaggregated to provide regional profiles even though it would be relatively easy to do so. Effort must be made to improve the availability of data on regional business performance.

Current efforts to improve communication with communities is supported by business. It must be said, however, that these initiatives do not of themselves optimise communication or community engagement. Engagement requires

an integrated approach by governments and by agencies.

As difficult as it may be institutionally, the optimal result for business would be a one-stop shop for all government programs, regardless of whether they are federal, state or local. So long as agencies value branding over seamless delivery, and control over outcomes, businesses will continue to experience confusion, frustration and irritation – particularly when they cannot be expected to know or understand who carries the responsibility for certain functions; most businesses lack experience and confidence with government processes as responsibility for not doing something is passed from one government to another, or one agency to another.

It is also of paramount importance that the business community be engaged in discussion or policy formulation on issues that impact on the operations or competitiveness of business. Business expects to have representation and be empowered to participate in regional policy forums. Regional business overall has access to fewer networks for information, usually a narrower skill base and often large variability in expertise, particularly in highly specialised areas such as taxation. The impact on all regional business of policy initiatives, not just particular industry sectors, must be carefully considered to avoid unintended consequences.

Therefore broad private sector representation in the national policy development process on all regional development-related initiatives is critical, and a better balance of private sector interests is needed in government forums.

**Equitable Access to Services**

Regional residents have long complained that they pay more than their metropolitan counterparts for an inferior quality of basic services: utilities, telephony, health care, banking etc. This in turn is mainly a reflection of the much higher costs entailed in the provision of services to small, dispersed and low density populations.

Despite paying more for less, regional consumers' access to these services has been largely underwritten by substantial transfers from other consumers (through cross-subsidies) or taxpayers (through direct funding of community service obligations (CSO)). Further, communities have clear expectations of being able to access what is regarded as basic public services – though what constitutes basic public services is ill defined.

Some of these services are traditionally products of the private sector, such as banking, and others have traditionally been provided by the public sector, such as hospitals and roads. Telecommunications now sits somewhere between the two.

Public services, which are easily provided in urban communities at a relatively low cost, are expected by regional communities as well. But it need hardly be said that the economies of scale, which keep such costs down in urban communities, are unavailable in many regional communities.

There is a clear and undeniable role for governments to help craft

outcomes that will provide greater equity. Few argue that in the face of relentless change that governments should stand by and let market forces alone shape outcomes.

The mechanisms used by government to promote equity – commonly termed community service obligations or other such mechanisms – do play a role in certain situations provided they are transparent, accurately reflect the cost of the product or service, and do not act as more than a minor distortion to the market.

Market forces will generally find solutions faster and more directly than any government ever will, and more efficiently. Today, it is increasingly accepted that governments do not necessarily need to own the service to provide the solution. Using telecommunications as a topical example, mechanisms like CSOs and grants for provision of untimed local calls to remote areas, effectively enable governments to purchase services where required in response to community demand.

If such obligations are to be pressed on businesses, it is imperative that it is the outcome that is mandated and not the form. If private sector firms are told what outcomes are sought, novel ways will be found to achieve those ends within the constraints of the market. Evidence of this was the tendering process for the provision of untimed local calls to remote Australians.

Further, with competition policy and the move away from monopolistic provision of services by public utilities a range of cost effective and innovative means of providing services into regional areas is becoming available.

Where subsidised provision of services remains the chosen approach, it should be contestable (with private competitors and public sector incumbents bidding for the right to the subsidy), and funded from taxes not cross-subsidies to minimise competitive and price distortions and ensure transparency.

### **Competition Policy and Regulation**

Regional and rural Australia has already benefited from some early reforms that are compatible with, or are expected to flow from, implementation of National Competition Policy (NCP).

Deregulation and expanded competition have already produced, or hold out the potential to deliver, meaningful dividends to key sectors closely identified with regional and rural Australia.

Contrary to some misconceptions, NCP does not mandate the termination of the compulsory commodity market arrangements with which many rural producers are familiar. To some in rural Australia, NCP is seen as the death warrant for single export desks, with inevitable loss of bargaining power and incomes for rural commodity producers.

A number of substantial inquiries into compulsory marketing arrangements have already been completed, recommending the retention of the single export desks where such mechanisms result in better outcomes for Australian producers. However, other reviews have come to different conclusions. An examination of the operation of

the Australian Barley Board, for example, found the compulsory marketing arrangements had greater costs than benefits and thus were in need of reform.

For whatever reason, NCP has often been blamed for the loss of services outside the major capital cities and/or for their deterioration in quality. Yet a number of these outcomes can be more directly attributed to changes in the economic platforms and the demographics of regional communities than to competition policy.

Indeed, to date, NCP has had little, if any, impact on the banking, medical or postal services sectors in regional Australia. Indeed, it should be noted that in some cases the supply of services per se is not diminishing; only the nature and form by which they are delivered.

NCP payments to the states – made in tranches over a period of years as prescribed by the policy – were designed to provide compensation and smooth the process of structural adjustment arising from reform. That the states chose not to make those funds available for that purpose is not a failure of the policy itself.

Further, it is open to governments to deliver subsidised services to regional Australia under NCP. That they may choose not to do so is a separate issue for political resolution.

Industry, governments and others must not resile from meeting the challenges that will present themselves, but remain committed to realising the benefits of effective competition and a competition policy regime.

## Government Programs

Policies and programs designed to promote regional or rural industry development should be designed for and accessible to all regional and rural businesses. They need to be flexible and demand driven, not supply driven. Positive efforts have been made to improve the responsiveness to communities of the Federal Government's regional development programs, and this work has helped to improve outcomes. However, regional communities and businesses access programs across a range of portfolios, not all of which are as responsive.

There are also signs of greater cooperation between federal and state agencies in funding regional development projects, but much more work, needs to be done in terms of streamlining and aligning program objectives, application and approval processes and reporting requirements.

As a matter of principle, ACCI supports contestability in delivery mechanisms. Once the merits of a program have been clearly established and accountability mechanisms are in place then there is no reason why program delivery should not be undertaken by a range of existing or new service providers. The move to contestability and tendering could deliver cost effective and innovative solutions from a range of provider sources; for example the introduction of user choice in vocational education and training will deliver these outcomes as well as a demand driven system in training.

Nor is there any difficulty from business with the transfer of funding for certain regional activities to local governments, and/or local governments undertaking activities on behalf of or instead of state or federal governments if that is the most effective and efficient delivery mechanism.

## Conclusion

Government-directed activities whose only aim is to create jobs without genuine consideration of the effect on the level of economic growth overall would undermine Australia's economic strength. Projects of this kind can have no place in the economic development of Australia.

Policy approaches by governments that artificially prop up communities, inordinately delay structural adjustment processes or impose costs on other industries or businesses do not succeed in arresting the decline of communities or industries and should not be supported.

However, there are situations where it is possible with a limited commitment of public outlays to place some of the cost of adjustment onto the community in general. The aim here should be to improve the productive potential of regions to enable them to attract and hold new business enterprises. The commitment of public outlays must not be at the expense of one community over another, or impact on the competitiveness of other industries.

The aim of public policy in these circumstances should be to improve the productive linkages between the local community and business development.

At a local government level, while inducements or incentives may attract businesses to a location; ultimately it is the risk exposure and expected return on investment that will drive decision-making.

An alternative approach to incentives is to help make communities 'opportunity ready', and local governments 'investment ready'. Local governments can use artificial attractors in the form of subsidies or in-kind assistance, or they can use capacity-building attractors – infrastructure and land-use planning; information, advice and referral; networking and liaison and provide support for education and training (as outlined in a local government paper presented to Outlook, 2001).

However, a key consideration in adopting this approach would be to look beyond such 'industry attraction' towards building the competitiveness of the region and development of existing firms. That requires governments to focus on getting the underlying economic structures right, on capacity building activities, on integrating regional policy and on encouraging a regional approach. This is what will provide the institutional environment that is most conducive to doing business.

ACCI's full submission to the Regional Business Development Analysis is available at [www.acci.asn.au](http://www.acci.asn.au)

# fundamental reform of higher education a must

**a** CCI supports a broad debate into the issues and policy choices required to make the Australian higher education system a world leader. Higher education is a key element in Australia's skill development strategy and, along with vocational education and training and senior secondary schooling, comprises the post-compulsory education system.

The Federal Government's Higher Education Review must focus on higher education's contribution to post-compulsory education and Australia's economic and social development. It is also an opportunity to draw from the lessons learnt from reforms made by governments and industry to vocational education and training in recent years. It is imperative that the Review takes full account of business and community expectations of the higher education sector and is not overwhelmed by views from the institutions themselves.

Australia's education and training system must provide people with the knowledge, skills and attitudes they will need to participate fully in Australian society – culturally, socially and in their employment. All Australians must be able to:

- benefit from a sound education platform which provides basic literacy and numeracy skills
- pursue future education and training opportunities which enhance workplace skills
- develop a positive attitude to the concept of life-long learning.

ACCI plays an active part in the development, monitoring and evaluation of education and training policies and programs that impact on business. This is in

recognition that growing support for the development of a comprehensive education and training system is pivotal to the achievement of short- and long-term economic goals of Australia.

Education and training is imperative for:

- an increase in the competitiveness of enterprises and the need to respond to global competitiveness pressures
- employee satisfaction/ motivation through acquisition of higher skills
- flexibility/adaptation of workers to change in the workplace
- ability of companies to draw on workers in emerging labour markets and meet new industry needs
- enabling enterprises to build upon skills of existing workers, particularly younger workers, to adapt them to a particular workplace.

It is also important to note the contribution of education and training provision to regional Australia and the economy more broadly through provision of services internationally or to students from overseas studying domestically.

## Vision

Under the current system, universities have little incentive to operate in a flexible and responsive way. The needs of students, industry and the wider community are secondary to the needs of the universities. Often, regardless of performance, universities receive an allocation of funds (from government) based on numbers of students and tend to fill places regardless of regional or economic need. There is limited collaboration across the sector to rationalise courses.

Those universities that work hard to improve performance and strive for improvements in quality and responsiveness are treated no differently from those universities that do nothing in these areas. Both types of universities receive the same amount of income for undergraduate programs from government funds and student contributions – there is no significant differentiation made between poor service and excellent service.

There is little incentive for universities to adopt forward looking practices, to reform existing rigid administrative arrangements and staffing structures, to pursue opportunities for domestic growth and to respond quickly to the changing needs of students and industry. Despite this there are some good examples of best practice

which, no doubt, have been highlighted during the course of the Review.

Higher education has an important but not exclusive role to play in economic development.

Unless the Higher Education sector responds to the needs of its customers and improves its performance, the economic and social benefits that flow from a highly skilled and adaptable workforce will not be fully realised.

Employers expect better outcomes and continually look for products tailored to their needs. Knowledge-based industries are growing which is placing more importance on higher education. Just like all service industries predominantly funded by government, there is enormous pressure to improve cost effectiveness and desired performance levels.

Increased demand is coming from demographic pressures as well as pressure from employers and industry for skilled workers as opposed to unskilled workers. In addition, demand for skilled workers relative to unskilled workers measured in terms of educational attainment, increased during the 1980s and the 1990s. Increasingly, students and employers are requiring a mix of vocational and academic skills development options.

Factors affecting the level of demand include the fact that competition is increasing among higher education and other providers. Potential competitors now come from outside the established network and from other education sectors.

As well, Information Technology is revolutionising education products, changing the way teaching is delivered and the way administrative processes are managed.

Given these changes, it is imperative that there be a fundamental repositioning of the higher education sector, which takes account of a number of key elements, in particular:

- a demand driven system – this more closely aligns education and training to the needs of business, students and governments and shifts the focus to a business culture where incentives are created for maximising volume and quality, reducing costs and using resources more effectively
- a competitive and diverse market – competition and diversity will lead to a more efficient and cost effective system while increasing the range of options available. This will require a higher level of flexibility to enable better use of capital assets and to address issues such as economies of scale and third party access
- deregulating the system – ensuring quality outcomes and appropriate quality servicing arrangements across Australia minimises Government intervention and relaxes many of the current points of regulation. This allows more effective, responsive delivery of services. At the same time a framework must be maintained that incorporates accountability, quality and accreditation

- universal access – the system must promote the concept of a universal entitlement to post secondary education for all eligible Australian students (school leavers and mature age students) together with programs which have equity considerations based on ability rather than income
- student centred funding – students should be able to purchase a course from any public or private provider (User Choice). Funding should be linked to student outcomes/ achievements with prices determined by market forces. It is recognised that some transitional arrangements will be required to implement this arrangement
- simplified articulation pathways – this requires closer cooperation between the sectors on credit transfers and recognition of prior learning and articulation streams. In this context, the Australian Quality Framework (AQF) should be accepted as a standard continuum and credentials aligned with AQF levels
- quality research and development – closely linked to economic needs and close business collaboration.

During the course of this Review it has become evident that the development of a clear vision agreed by all interested parties has been stifled by self-interest and emphasis has been placed on the art of what is achievable in the short-term, rather than where higher education, in the context of other post-compulsory learning,

should be positioned for the benefit of the economy and all Australians. Simplistic notions of the Organisation for Economic Co-operation and Development (OECD) relativities, particularly comparisons against percentages of Gross Domestic Product (GDP), and participation targets have been put forward which have no clear justification or connection to other post-compulsory activity. The analysis has been lacking in contextual depth.

The vision for higher education in Australia should take account of developments in other education and training sectors rather than perpetuating points of differentiation and separation. The central goal of any reform should be the development of an integrated post-compulsory system which is driven by its primary customers (that is individuals and business) with the full spectrum of providers being supported by an incentives regime to deliver appropriate services of excellence in education, training and research.

**Financing**

In March 2002 ACCI General Council supported a number of key priorities for education and training. In the area of resourcing, the relationship between post-compulsory education systems needs to be examined. The relationship between higher education, VET and schools offering years 11 and 12 is becoming increasingly blurred. The financial year 2002-03 provides an excellent opportunity to closely examine these aspects, including resources and better ways to integrate and coordinate VET and higher education activities. Increasingly, students and employees are moving between sectors, often to gain a

single qualification or complementary ones. For example, a significant number of undergraduates are entering the workforce after university through a New Apprenticeship.

Issues in this Review should include an examination of learning accounts for individuals and rationalising of, and access to, infrastructure across institutions and sectors. This Review will allow the community to debate higher education’s contribution to post-compulsory education and Australia’s economic and social development. To date, most of the submissions focus exclusively on higher education in regards to resources. This is a very narrow interpretation of the necessary reforms required in education and training.

Broader discussions around financing need to take place for four reasons.

- There is considerable movement between the sectors by students and an increasing expectation to have access to that mobility.
- There is a need to examine the total level of resources flowing into the post compulsory sector in an holistic manner.
- Substantial efficiencies could be achieved through the rationalisation of course offerings and infrastructure.
- Flexibility in the post compulsory sector will be required for lifelong learning options.

**Student-Centred Funding**

Throughout the course of the Review, business groups have

continued to advocate the introduction of a student entitlement, or student centred funding arrangement. ACCI considers the outcome of the Review should recommend the introduction of student centred funding with further work to be done on appropriate models and implementation arrangements. Therefore, any other change needs to be undertaken clearly in the context of transitional arrangements towards the new regime.

Public funding for tuition should be tied to student choice. This requires a direct relationship between the providers and students which determines the flow of public funds to institutions. It also puts the onus on the student to make the right choice. There are arguments that students would make poor choices. In other areas students exercise choices about voting, financial loans, employment contracts and a range of other critical matters in their lives. Provided they have access to the right information to support their choice, they should also have the responsibility to exercise control over their higher education choice.

The introduction of student centred funding should be the cornerstone of any reform of higher education. Essentially it allows for a basic financial entitlement for all to be used in post-compulsory education and training activity. There is some potential for means testing the entitlement but this would meet with considerable resistance. Any introduction should take account of:

- a transition from existing practices to soften the impact on institutions
- the need to couple this arrangement with partial deregulation of fees

- targeted incentives to improve specialisation of institutions in areas of study
- appropriate careers advice in schools and for mature adults to ensure potential students can make more informed choices – this may be supplemented by appropriate information on employment outcomes for each
- the introduction of scholarships for equity groups
- an examination of one flat amount or additional incentives to undertake study in areas of skill shortages – any arrangement involving skill shortages will need to take account of improved processes to identify shortages in industries and regions and projection of skills needs
- the need to means test any arrangement
- investigation of the interaction between student centred funding and other forms of revenue including “core grants”, research and development and private sources
- appropriate Living Away from Home Allowances which allow students to receive some subsidy for moving to institutions of their choice.

transitional changes to funding are supported. These include increased fee flexibility, modification to repayment schedules of premium fees and payment of fees directly to institutions.

There are a number of important considerations here, namely:

- these transition arrangements must be time limited with active development of student centred funding arrangements
- the higher education and more importantly, the post compulsory education system, are heavily reliant on provision of public funding
- there is an upper limit of the ultimate financial contribution an individual can make through HECS
- other efficiencies can be gained through reforms, including rationalisation of infrastructure and specialisation.

Similarly mechanisms should be established to encourage universities to become more flexible and responsive to the needs of individuals and business, foster autonomy of each institution and ensure accountability and quality.

It appears there are four primary ways to bolster quality and accountability, namely:

- the presence of appropriate initial registration requirements
- encouraging choice of provider through placing the government contribution in the customer’s hand (ie student centred funding)

- support for an active national audit and quality assessment arrangement as has recently been established through the Australian University Quality Agency
- requiring appropriate governancing arrangements more reflective of other business operations.

It is also clear that existing reporting mechanisms to government are seen by many as an imposition on providers while not making organisations accountable for the large amount of government funding allocated to them and managing the growing contributions from other sources.

The objective of improving workplace relations in the sector is fundamental - it is a labour intensive sector in a service industry. This means that imperatives such as flexibility, productivity, performance, career development and service standards all need to be addressed – not hindered – by workplace policies. It means agreements at a local level – both with employees as a group or in groups, and individually. Direct employee/university agreements are sadly lacking in this sector.

ACCI encourages all interested parties to participate in fundamental reform of the post compulsory sector and more actively examine all possible mechanisms to ensure public expenditure is allocated to align to worldwide and employer needs. The time is right – and it could be the last change for some time.

**Transition Strategies**

The Business Council of Australia (BCA) recommended in its Submission to the Review titled Developing a Framework for the Financing and Governance of Australian Universities that

# the general agreement on the trade in services

**t**he World Trade Organisation's General Agreement on the Trade in Services (GATS) is being subjected to a deliberate misinformation campaign by critics with various hidden agendas. It would be unfortunate if these misrepresentations were to become accepted, and undermine a valuable international agreement to liberalise the trade in services that holds out substantial economic benefits for developed and developing countries.

The GATS, which came into force amongst WTO members in January 1995, is the first and only set of multilateral rules covering the global trade in services.

It has two key parts: first, a framework agreement setting down general rules and disciplines; and, second, the national schedules which list the specific commitments of individual countries on access by foreign service providers to their domestic markets.

The schedules are what trade negotiators call 'positive lists'. That is they set down only those services where a WTO member wishes to guarantee access for foreign service suppliers. Importantly, where a service is not contained on a member's list/schedule, there is no guarantee of market access.

The GATS is open to cover all internationally traded services (where members chose to place them on their national schedules), with two notable exceptions. These exceptions are: first, services provided to the public in the exercise of governmental authority; and, second, those in the air transport sector, in particular air traffic rights and services relating thereto.

The first category – services provided under governmental authority – is generally taken to cover emergency services (police, ambulance, fire brigade), as well as

education, health and utilities, such as water supply.

The GATS also defines four main ways by which services can be traded; the so-called 'modes of supply'.

They are: services supplied from one country to another, for example international telephone calls (officially known as cross-border supply, or Mode 1); and, consumers from one country making use of a service in another country, for example tourism or education (officially known as consumption abroad, or Mode 2).

Others are: a company from one country setting up subsidiaries or branches in another country, for example where a bank establishes operations abroad (officially known as commercial presence, or Mode 3); and, persons travelling from their own country to supply services in another country, for example an engineer or an entertainer (officially known as movement of natural persons, or Mode 4).

## Benefits of GATS

The value and importance of the international trade in services has generally been under-recognised. Efforts to initiate talks on a multilateral agreement on the trade in services during the 1950s and 1960s failed to progress

because many countries regarded such trade as unimportant and not worth the effort of negotiating.

However, this thinking had changed by the start of the Uruguay Round of trade negotiations in the late 1980s, with the concept of a GATS-style agreement added to the negotiating agenda. And, not before time.

By the late 1990s, the trade in services accounted for fully one-fifth of all international commerce (or some \$US 1350 billion annually, around 3 times Australia's national output), and growing at a faster rate than the trade in goods.

The importance of the liberalisation of the trade in services for developing countries, in particular, has been highlighted in a recent World Bank study that looked at the expansion of national services sectors around the world.

A key finding of the study was the share of services in global GDP increased by around 5 percentage points between 1980 and 1998; by comparison, the figure for developing countries was nearly double that, at 9 percentage points.

At the same time, foreign exchange earnings from the trade in services is becoming just as important for developing as it is for developed countries.

Research by the World Trade Organisation has shown developed countries earned around 19 per cent and developing countries around 10 per cent of their export income from services in 1980 – a ratio of around two to one.

Two decades later the figures had converged to a situation where both developed and developing countries earned around the same proportions – 19 and 18 per cent respectively – of their export income from the trade in services, with the closing of the gap reflecting the strong performance of the developing countries.

Travel and tourism is a particularly prominent traded service, especially for developing countries). Valued at about \$A 900 billion annually, and accounting for one-third of the global trade in services, the tourism industry is already the world's largest single employer accounting for some 10 per cent of employees worldwide.

**Benefits of Liberalisation**

Research by the Organisation for Economic Co-operation and Development (OECD) and the WTO have identified a number of substantial benefits from the liberalisation of the trade in services.

These benefits cover: economic performance; development access; consumer benefits; faster innovation; greater transparency and predictability; and, technology transfer.

The liberalisation of the trade in services is important for economic performance.

Few would doubt an efficient services infrastructure, especially electricity, telecoms and transport, is an essential precondition for economic success, given they provide strategically important inputs for all other sectors of the economy, whether household and business.

It is also important for developing countries to strengthen their access to world-class services, which in turn helps their exporters and producers realise their inherent competitive strengths.

Services liberalisation has been an integral part of the development strategies in a number of countries, especially in services where they have comparative advantages such as tourism, construction, software development and health care.

Consumers also benefit from services liberalisation, most notably in the form of lower prices, better quality and wider choice, which over time work their way through national economies thus improving supply conditions and the competitiveness of other goods and services.

Liberalisation of the trade in services also contributes to faster innovation, both in products and in processes, which has been borne out in studies of the effects of reforms in areas such as financial services, information technology and telecoms.

Greater transparency and predictability has also flowed from the liberalisation of the trade in services, most notably from country's national schedules under the GATS which offer binding guarantees that foreign

firms will be allowed to supply their services under known and stable conditions.

Finally, services commitments under the WTO have helped to encourage foreign direct investment (FDI) and through it, technology transfer and skills which diffuse into the broader economy. These skills in turn can act as the platform for new traded services exports, especially in developing countries – witness, India's push into computer software.

**Answering the Critics**

The WTO, and the GATS in particular, have been subject to substantial amounts of what could politely be called misunderstanding, or more properly deliberate misrepresentation by organisations with various hidden agendas.

In the latter case, these include those holding on to protectionist attitudes, or simply seeking a platform for personal profile and advancement.

Prominent falsehoods levelled against the GATS and the liberalisation of the trade in services include it: is biased against local producers in favour of foreign suppliers; forces governments to deregulate their services sectors; compels reluctant countries to open their services sectors to foreign competition; mandates the abolition of public funding; requires governments to privatise key services; and, that commitments, once made, are irreversible.

The WTO, and the GATS as part of it, aim to eliminate biases between local and foreign suppliers, through what is known as its national treatment rule: quite simply,

foreigners are to be treated the same way as local suppliers.

At the same time, where governments, for reasons of good public policy, impose a regulation or requirement on a local service provider, it will be similarly applied to the foreign supplier.

The GATS does not affect the right of governments to regulate the supply of services. Governments can still set limitations on the number of service suppliers in any activity, the type of legal entities permitted and shares of foreign capital, as long as this is done consistently and transparently.

Nor does it require WTO members to open their domestic services sectors. There is no obligation under the GATS on any WTO member to allow foreign supply of any particular service sector, such matters being decided by national governments and reflected in their commitments under their national schedules.

While WTO members are expected to have a national schedule under the

GATS, there are no rules on how extensive it should be. Indeed, one of the main issues for the WTO Doha Round involves negotiations on broadening and deepening what some consider to be very limited national schedules, even those of advanced industrialised nations.

Critics of the GATS also allege, again wrongly, that it could result in the abolition of government funding for national institutions, supposedly on the grounds such financing is inconsistent with free trade.

The reality is there have never been any suggestions, let alone proposals or requests for substantive debate from any WTO member, to abolish public funding. Rather, government services are expressly outside the coverage of the GATS.

Similarly, the GATS does not require the privatisation of any, let alone, all government services, as some critics mischievously claim.

In reality, WTO members are quite at liberty to maintain a service in government hands.

Commitments under the GATS, like other elements of the WTO suite of agreements, are not irreversible, another falsehood peddled by the critics.

Any commitment can be withdrawn or modified after it has been in force for three years; governments can invoke what are called 'general exceptions' to protect important public interests or national security; and, they can suspend their commitments where they have serious trade imbalances.

Consideration is also being given to allowing parties to the GATS to have recourse to what trade negotiators call 'emergency safeguard measures', which allows national governments to suspend their commitments where the actually or threaten damage to a domestic services industry.

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