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ANZ Services Report

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Contents

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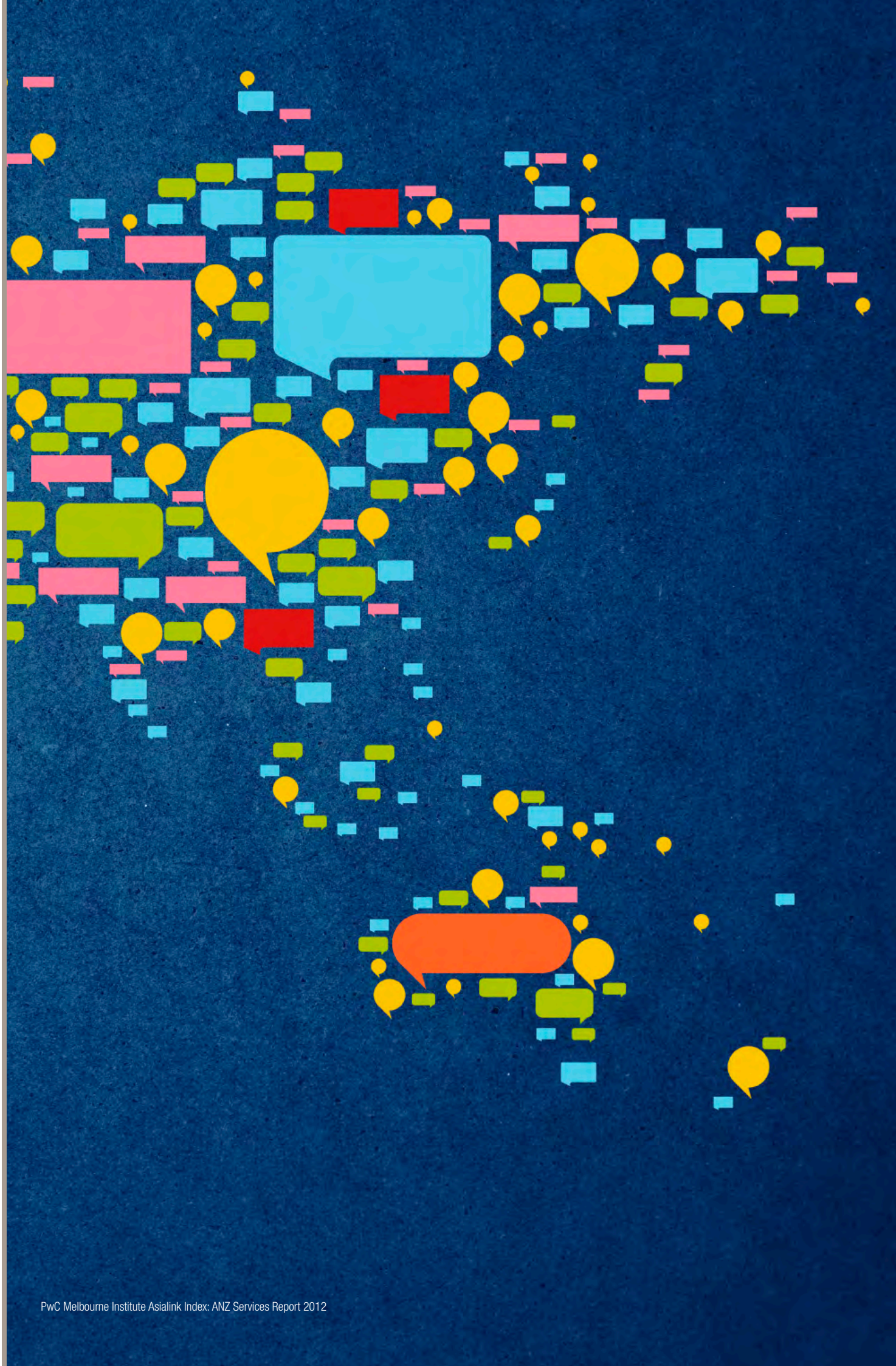

Welcome to the second biennial edition of the ANZ Services Report. This edition builds on the findings of the 2010 Report, showing that Australia's engagement with Asia through services trade is an integral and increasingly important part of our overall trade relationship with the Asian region.

The Report shows that trade in services with Asia has grown significantly faster than that with the rest of the world since 2000 – which is particularly important for Australia during the recent slowdown in developed Western economies. Growth in exports, of nearly 42 per cent since 2000, is particularly noteworthy given there has been no growth in Australia's services exports to the rest of the world in the same time.

Official data used in this Report do not capture investments in Asian services sectors by Australian companies, or the activities of Australian affiliates in Asia, meaning that actual engagement through the services sector is likely to be even more profound and widespread than the Report shows. Industry has estimated that three major Australian financial institutions alone have invested over $6 billion in Asia in recent years.

This second edition of the ANZ Services Report looks at the period following the Global Financial Crisis, when exporters also had to contend with a strong Australian dollar. The Report reveals that, despite these adverse conditions, services trade with Asia continued to grow in 2010 and 2011, after falling in 2009. At the beginning of the Asian Century, services trade with Asia was less than half that with the rest of the world. It is now nearly 60 per cent. At the country level, services trade with the ASEAN states has been critical to the overall increases recorded in the last two years.

However, an overall upward trend in services trade masks some concerning developments in individual sectors. Drops in education services trade in 2010 and 2011 are particularly worrying, though it is hoped that recent government policy changes will reinvigorate demand in Asia for an Australian education.

Policy makers and Australian leaders should also appreciate that trade in services is more likely to involve close person-to-person than trade in goods. Increasing services trade between Australia and Asia will not only provide a direct benefit to exports, it will also deepen and diversify our relations with the countries of Asia – a welcome development.

We are also delighted to introduce a reflective essay from eminent economist, Tim Harcourt, where he explores the implications of our increased services trade with Asia and our history of engagement with the Asian region.

We congratulate and thank the expert contributors to this Report and are pleased to be able to again bring together ANZ, PwC, the Melbourne Institute and Asialink to deliver the second biennial ANZ Services Report.

The Power of Proximity – Australia's Next Wave of Global Engagement in the Asian Century

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Introduction – From the tyranny of distance to the power of proximity

Nearly five decades ago, Geoffrey Blainey's *The Tyranny of Distance* argued that Australia's geographic position shaped our psychological attitudes. The long distance between Australia and our colonial forebears in Europe, and also the United States, made us unsure of our future economic prosperity. At about the time Blainey was writing, Donald Horne's *The Lucky Country* described a resource-rich Australia that lacked intellectual confidence and the capacity to make the most of its natural endowments. Horne said too that a reluctance to engage with Asia would harm Australia politically, socially and eventually economically. Noting this reluctance, Singapore's long-standing Prime Minister Lee Kuan Yew famously warned that Australia risked becoming the 'poor white trash of Asia' and advised that vast natural mineral wealth was neither necessary nor sufficient for long-term prosperity.

In these years, however, Japan had already succeeded the United Kingdom as Australia's major trading partner: the Australian economy had begun its long journey toward greater engagement with the Asia-Pacific. This essay examines Australia's post-World War Two economic relationship with Asia in terms of four 'waves' – concluding that the rise of trade in services will define the most recent wave. This is a story of how, through incremental steps marked by some crucial breakthroughs, Australia has replaced the tyranny of distance with the power of proximity.

The first wave – Black Jack's beachhead: 1957-1972

In 1957, just twelve years after the end of World War II, Australian Trade Minister John McEwen signed a commercial agreement with Japan. This agreement gave Australia a 'beachhead' in Asia, and launched the Australian tradition of bipartisan support for increased trade engagement with the region. There followed a flurry of trade and, later, investment between Japan and Australia. By 1966 Japan had surpassed the UK in our trading partner ranks – and Japan was transforming itself from a nation devastated by war into a huge and affluent economy.

The second wave – Sino-the-times: 1972-1982

As Japan re-entered the world economy, followed closely by South Korea and the other 'Asian Tigers', China remained closed to the world with little economic engagement outside its borders. Australian relations with China, however, warmed dramatically after Gough Whitlam visited Beijing (then Peking) as Leader of the Opposition in 1971 and formally established diplomatic relations when elected Prime Minister in 1972. Whether because of this early recognition, or of our support for China's entry into the World Trade Organisation, China regards Australia as a key economic partner – and China has now overtaken Japan as Australia's number one trading partner.

The third wave – Breaking down the tariff wall: 1983-2008

Lee Kuan Yew's admonitions came back to haunt Australia in the recession of 1982-3 when, despite a resources boom, the economy was stagnating beneath double digit unemployment and inflation. In response, government reforms opened up the Australian economy and oriented it even more toward Asia – and did so while maintaining social harmony through a Prices and Incomes Accord with the Australian Council of Trade Unions (ACTU). The exchange rate was floated, financial markets were reformed, and universal health care and superannuation were introduced alongside education reforms aimed at boosting skills and productivity. Many of these reforms – particularly in finance and superannuation – underpinned the strength of Australian financial services exports in the region.

As for trade, the tariff wall that had kept Australia isolated and uncompetitive for a century was taken down brick by brick. Australia supported trade liberalisation through the GATT/WTO and the creation of APEC, and via other Asia-focused regional economic institutions. The first free trade agreements (FTAs) were mainly Asian in orientation and, in the case of Singapore and Thailand, bolstered Australian professional services opportunities in architecture, accounting, legal and other business and professional services areas.

The fourth wave – Global engagement in the Asian Century

Now Australia is entering its fourth wave of engagement with Asia.

In terms of trading partners, just as China superseded Japan – which had previously taken over from the UK – so further realignment of the global economic order will again alter Australia's trading patterns. The emergence of several ASEAN states, in addition to the new Asian giants – China and India – will take us through this new phase of engagement.

As to the nature of our relations with Asian partners, this wave will look very different. First, we are now well situated within established Asia and are able to expand into emerging Asia. We have formed beachheads in ASEAN, China and India as well as Japan, and now some of the frontier markets – including Laos, Cambodia and Myanmar in the Mekong Delta and Mongolia and Kazakhstan in Central Asia – are opening up.

Secondly, whilst our larger corporates have already formed strong relationships in Asia, the nature of global supply chains and open regionalism means that Australian small and medium-sized enterprises (SMEs) will become increasingly enmeshed. These SMEs are already joining global supply chains, engaging in strategic alliances and joint ventures, and setting up franchises across the region. New research from Sensis shows that of those Australian SMEs that export, 27 per cent now export to ASEAN and Asia provides seven out of ten of our top SME export destinations.

Thirdly, whilst the first three waves of our engagement with Asia have been focused on 'rocks and crops' (mining and agriculture), steel and iron ore, and pumping LNG offshore to the region, services will now play a more important role, despite facing some significant competitive challenges. 'Rocks and crops' will continue to provide the lion's share of our export revenue to Asia – but our 'points of engagement' with Asia will expand as services trade promotes broader and deeper people-to-people relationships.

Services complement the role that 'rocks and crops' and advanced manufactures play in our trade; they are not a substitute for (or alternative to) them. Goods exports build a platform that enables services trade to grow throughout the region and bring with it opportunities for investment, niches for SMEs, and richer global and regional integration.

This report discusses the key sectors that influence our services trade with Asia, that is: education, transport, finance and business services. It examines the changing intensity and distribution of services trade between Australia and 16 countries in Asia over the period 2000 to 2011.

In education services, Australia continues to reap the benefits of Asian demand, despite major challenges since 2010 caused in part by the appreciation of the exchange rate and visa policy changes. Education exports to Asia increased by 173.7 per cent between 2000 and 2011, making them the most important driver of growth in services exports to Asia over that period.

Transport services trade between Australia and Asia (including both freight and passenger transport) accounted for a huge 45.4 per cent of Australia's global trade in transport services in 2011. Since the Global Financial Crisis (GFC), transport services have recovered strongly, driven primarily by the increased imports of these services, up 43.7% from 2009 levels to

levels above those seen before the GFC (exports, however, are still well down on pre-GFC levels).

Australian capability in financial services will be critical in the fourth wave of our economic engagement with Asia, as finance is the fuel that lubricates international trade. Financial services trade volumes picked up substantially in 2011 after four years of stagnation, rising by 22 per cent.

Between 2000 and 2009, business services engagement between Australia and Asia grew by 139 per cent, followed by a fall of 10.3 per cent in 2010, which was, in turn, followed by an 8.5 per cent rise in 2011. These recent fluctuations may be attributed to the slowdown in the global economy and the strong Australian dollar.

There are numerous significant external factors that will affect the fourth wave of Australia's engagement with Asia. For example, demographics will matter a great deal, in the region and at home. As younger Australians engage with Asia through education and exchange, technological advance and social media, the nature of their relationship with Asia will be different from that of previous generations. Demographic change in Asia will mean more opportunities for Australian services providers in the traditional areas of education and tourism but also in areas focused on wellbeing.

China's one-child policy is generating lucrative opportunities for early childhood educational businesses, with small families and high disposable income. Not surprisingly, Australian childcare centres are doing great business – and Asian-language versions of 'The Wiggles' are hugely popular. In India, youth culture and a growing middle class is generating opportunities for retail franchises in massive shopping malls. Demographic change in Asia will also affect savings levels and opportunities for Australia's growing financial services sector; the ageing populations of Japan, China and South Korea will increase the size of the savings pool to be managed and the young populations of India, Vietnam and Indonesia will require student loan facilities.

Of course, there will be challenges as we pursue the fourth wave of Asian engagement, particularly given the ongoing risk and potential for external shocks within the global economy after the GFC. Climate change poses a serious threat, though it also represents an opportunity for Australian environmental services exporters. Those engaged in sectors like green building and environmental transport and infrastructure are well-equipped to assist China, India and Indonesia in reducing carbon emissions – and doing so as they grow their economies and pull their disadvantaged out of poverty.

Australia's economic relationship with Asia has taken many twists and turns, as we have grappled with the tyranny of distance and the changing economic landscape of the region. From our post-War engagement with Japan and recognition of China in 1972 – and then the transformation of our own domestic structure in the 80s and 90s to become one of the world's most open and successful economies – Australia now embarks with cautious optimism on a new phase. As this report shows, there are some positive early signs from this fourth wave of Australia's engagement with the region – signs that we are really starting to benefit from the power of proximity in the Asian Century.

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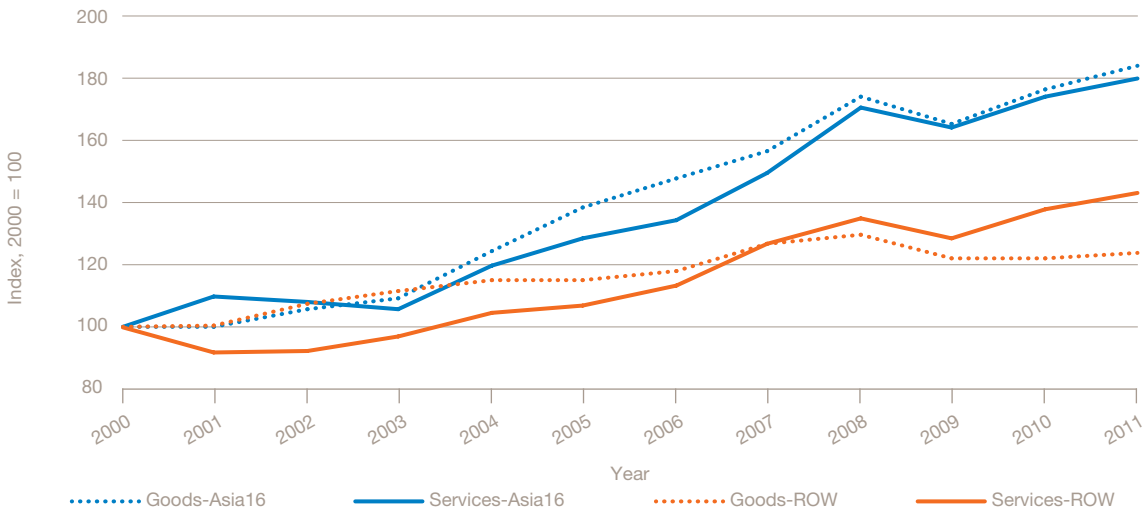
Services at a Glance

The ANZ Services Report examines four important sectors in Australia's international trade in services – education, transport, finance and business services. The report looks at the levels and spread of the trade between Australia and 16 countries in Asia over the period 2000 to 2011.[1] It compares the relative growth in those sectors in the context of both Australia's goods and services trade with Asia, and with the rest of the world (ROW).

Figure 1: Index of trade in goods and services Australia–Asia16 and Australia–ROW



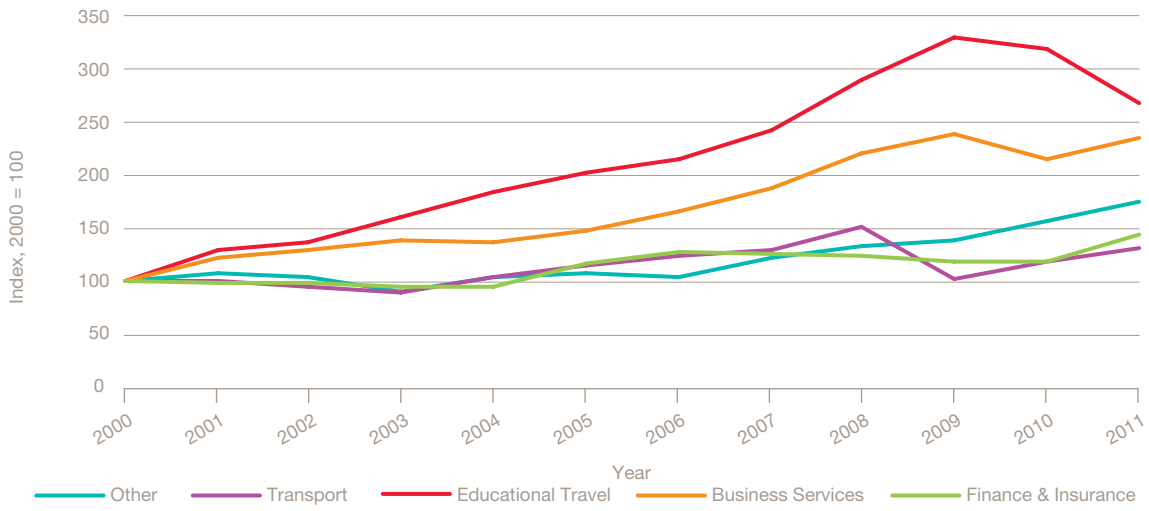
Overall trends in trade: Asia16 and ROW

- Growth in Australia's trade with Asia (in constant price or volume terms) has far exceeded growth in trade with the rest of the world since the year 2000, as reflected in Figure 1.
- Trade with Asia in both goods and services grew by at least 80 per cent during the period from 2000 to 2011, reflecting strong growth in general in exports and imports.
- Goods trade with the ROW grew by just 23.7 per cent and services trade by 43.1 per cent over the same period.
- The divergence in Australia's trade growth with the two country groupings from 2000 to 2011 largely reflects strong economic growth in Asia relative to the ROW, Australia's proximity to Asia, strong Chinese demand for Australia's natural resources, and strong growth in service exports to Asia.
- Over the past decade China has become the world's second largest economy and Australia's most important trading partner.

1 All Indexes shown in the Figures that follow reflect the value of trade in constant 2007–08 Australian dollar prices or 'real' terms, which is equivalent to trade volumes. The names of Asia16 countries are given in Appendix 1.

- As shown in Figure 1, there was a marked downturn in Australia's trade in goods and services with both groups of countries in 2009, reflecting the sharp slowdown in economic growth that accompanied the onset of the Global Financial Crisis (GFC) in the second half of 2008. While overall trade with Asia and services trade with the ROW recovered in the ensuing two years, goods trade with the ROW in 2011 remained below its 2008 level.

Figure 2: Australia-Asia16 services trade by industry

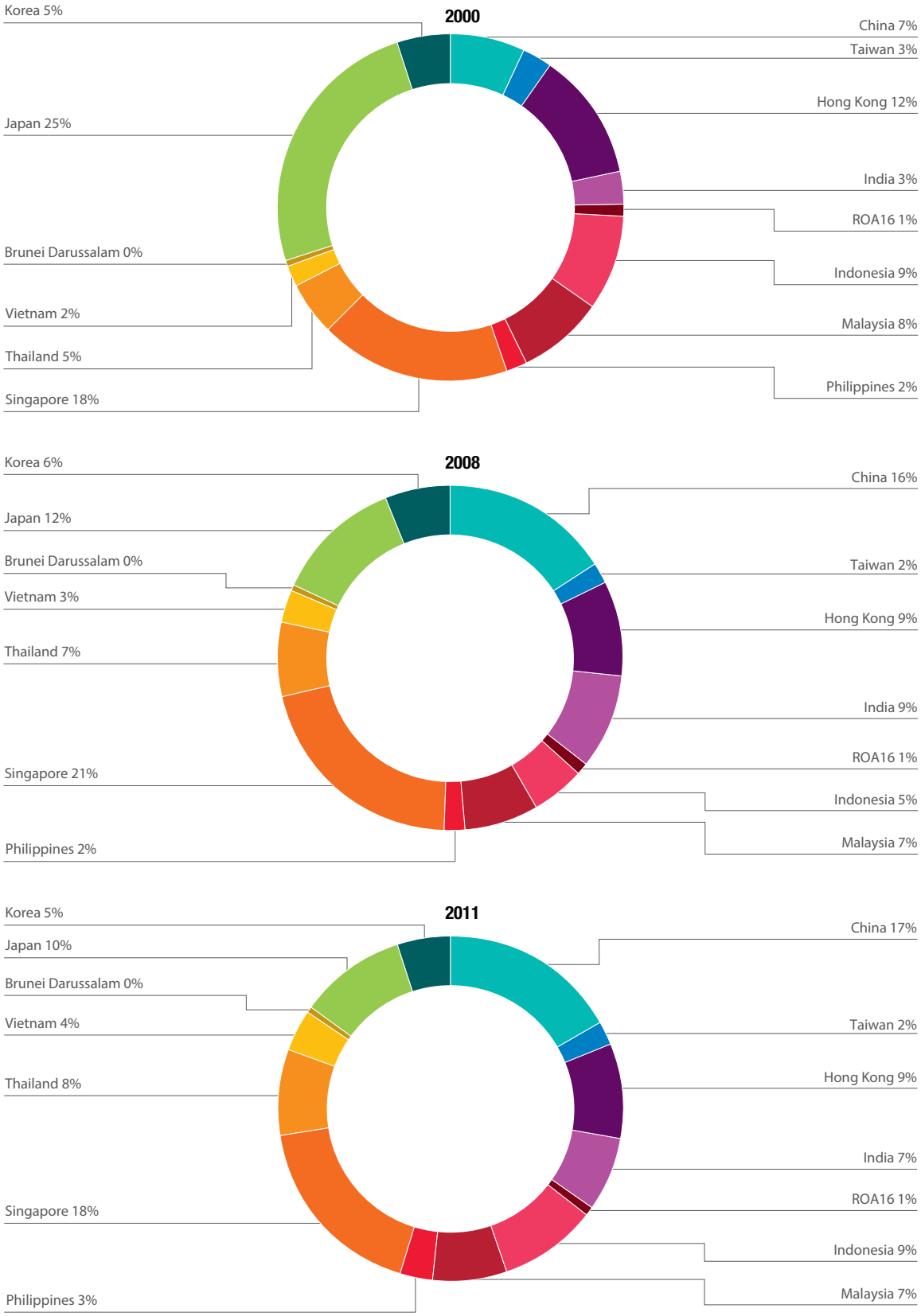


Highlights by sector

- Australia's trade in education services with Asia grew by more than 200 per cent in the period 2000 to 2009, reflecting primarily a strong increase in education exports; imports represent only a tiny proportion of overall education trade. While education exports moderated from 2009 due to factors associated with the onset of the GFC,[2] visa access and the reputation of Australian education in India, and the high Australian dollar, they nevertheless accounted for a significant 48 per cent of Australia's services exports to Asia in 2011 and 30 per cent of total services exports (that is, to Asia and the ROW).
- Australia's trade in transport services with Asia grew by 33 per cent from 2000 to 2011, with trade activity experiencing a significant downturn in 2009 in line with the GFC-related slowdown in growth in Asia. Imports of transport services exceeded exports by around 270 per cent in 2011. Transport services exports accounted for more than 10 per cent of service exports to Asia and almost 5 per cent of total service exports in 2011.
- Australia's trade in business services with Asia grew strongly by 139 per cent during the period 2000 to 2009, before slowing in 2010 in line with the slowdown in global growth as the GFC took hold. In 2011, however, trade recovered by 8.8 per cent to near its 2009 peak. During the period 2000 to 2011 exports and imports of business services grew at a similar rate, and are roughly equal in value. Australia's trade in business services with Asia in 2011 accounted for 4.9 per cent of our total global trade in services in that year.
- Finance and insurance services trade with Asia grew by 25 per cent during the period 2000 to 2007 –08, but fell moderately in the next two years before recovering strongly by 45 per cent in 2011, which largely reflected a sharp jump of 32 per cent in financial services exports to Asia. This sector's exports to Asia represented just over 2 per cent of all services exports to Asia in the year 2011, and around 1 per cent of total services exports, but do not include billions of dollars in investment by Australian services providers, such as the major banks.

2 The timing of the full onset of the GFC is usually described as the final quarter of 2008 following the collapse of US investment bank Lehman Brothers.

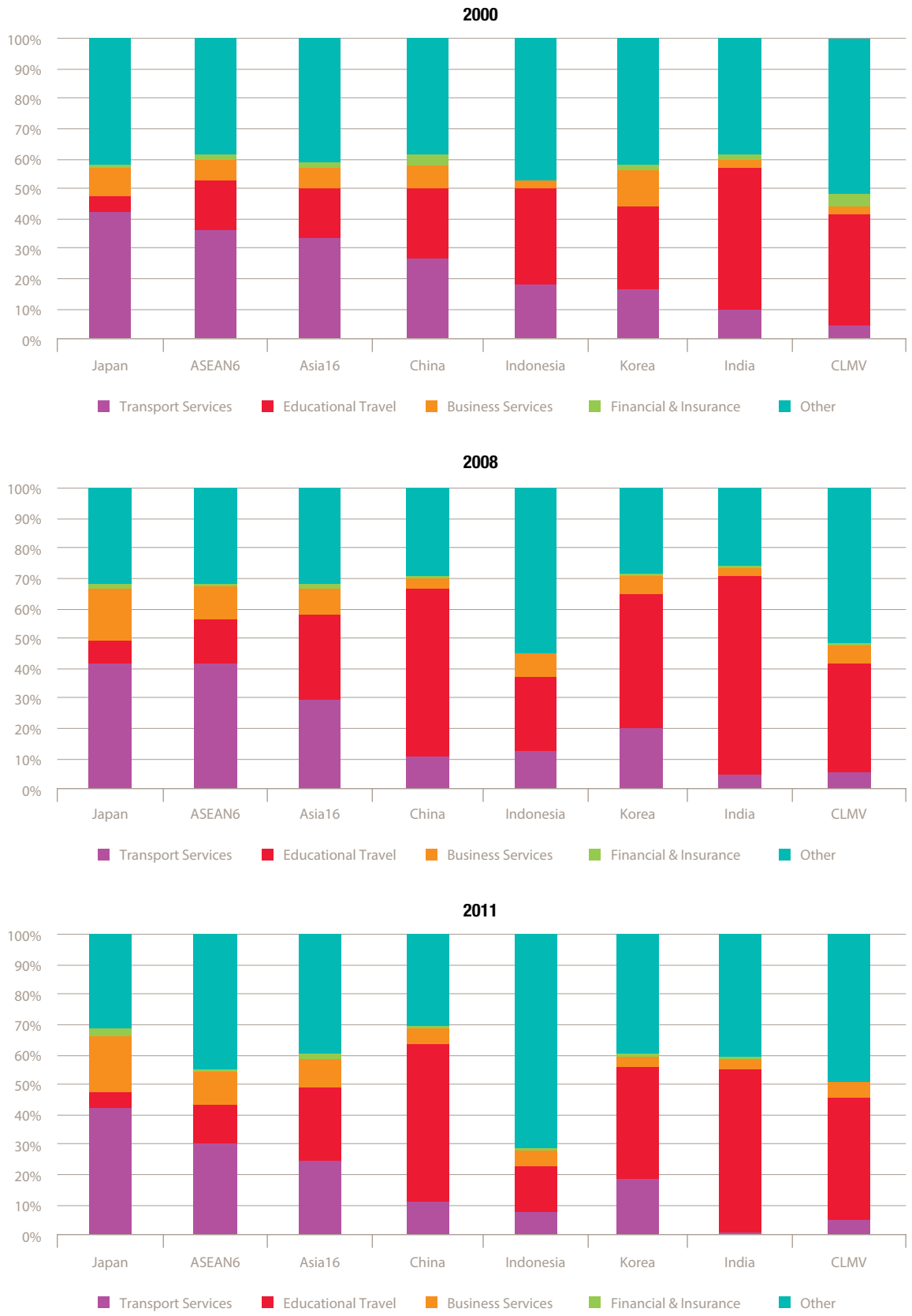
Figure 3: Distribution of Australia's trade in services (in value terms) with Asia16 countries



Highlights by country

- The distribution of Australia's trade with Asia has changed quite dramatically in the past decade or so, though again these figures are qualified by the exclusion of investments in the services sectors of Asian nations. Having been Australia's major overall trading partner in Asia for decades, Japan was overtaken by China during this period, due partly to low economic growth in Japan as its population 'ages', but also to the sharp increase in demand from China for Australia's mineral resources from 2003, as well as a big increase in services trade between the two countries as China's economic growth and development has escalated.
- As shown in Figure 3, the share of Australia's services trade with Japan has fallen sharply from 26 per cent of total services trade in Asia in 2000, to less than half this in 2008 and just 10 per cent of total Asian services trade in 2011.
- By contrast China's share of Australia's Asian services trade more than doubled from 7 per cent to 16 per cent between 2000 and 2008, increasing further to 17 per cent by 2011. A huge jump in Australia's education services exports to China has been a major driver in this overall services trade increase.
- Australia's third major services trading partner in Asia, identified in each of the three pie charts above, is Singapore, whose share rose from 19 per cent in 2000 to 21 per cent in 2008 before dropping back to 19 per cent again in 2011 – arguably reflecting a degree of ongoing uncertainty surrounding events in Europe. Singapore's significance in Australia's services trade in Asia, in spite of its relatively small size (in terms of GDP and population), likely reflects its prominence in financial services trade as well as its ongoing status as a geographically strategic entrepôt trading centre.
- The most significant feature that emerges from Figure 4 below is the increased importance of Australia's education services trade with Asia between 2000 and 2008, in particular with China and India. Australia's trade in education services with the CLMV countries has remained significant and broadly unchanged between 2000 and 2011.
- Transport services trade with Asia16 has declined slightly in importance since 2000 but remains marginally ahead of education in 2011 and dominates Australia's services trade with Japan and the ASEAN group of countries.

Figure 4: Industry share of total value of Australia's services trade with each major Asian trading partner



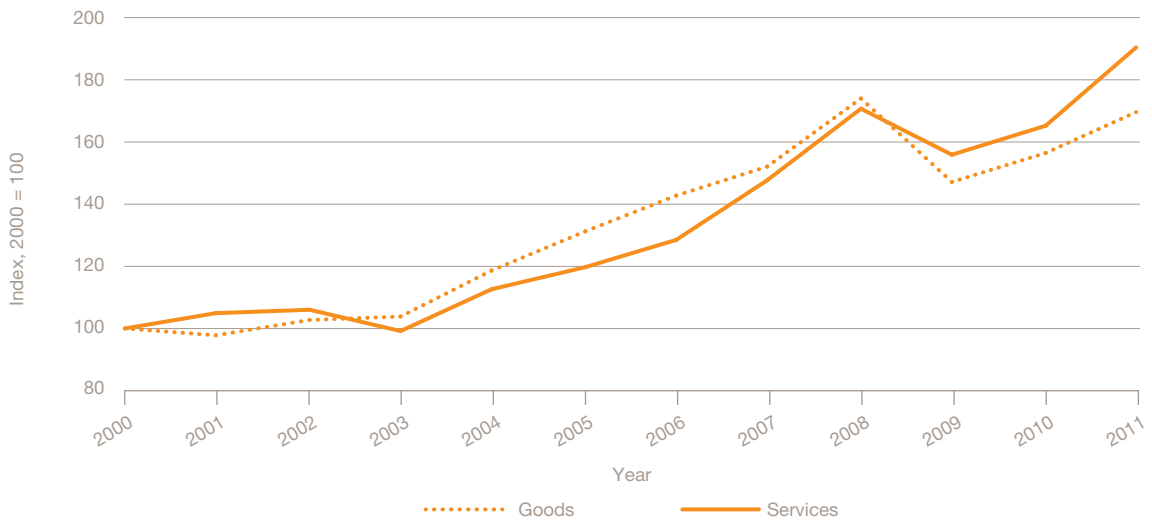
Economies

This chapter compares the strength in Australia's trade with a number of important trading partners. We look individually at trends with China, India, Indonesia, Japan and South Korea, and we separate the ten countries of ASEAN into two groupings: "ASEAN6", consisting of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand; and "CLMV", consisting of Cambodia, Laos, Myanmar and Vietnam.

ASEAN: ASEAN6

Australia's trade in services with the ASEAN6 group of countries accounted for 45 per cent of total trade in services across Asia (that is, the Asia16 group of countries) in 2011. The real (constant price) value of Australia's trade in services with the ASEAN6 group of countries rose by 71 per cent during the period from 2000 to 2008, roughly in line with growth of trade in goods during the period. However, with the full onset of the GFC in late 2008 the decline in goods trade in the ensuing two years of 16 per cent was around double the decline in services trade. While services trade has since rebounded to a new peak, goods trade remains below its peak level reached in 2008. Singapore remains Australia's most important trading partner in services across the ASEAN6 countries, although its share of the total has fallen quite significantly from 50 per cent in 2008 to 40 per cent in 2011. Singapore dominates Australia's trade in transport services, financial and insurance services, and business services in Asia overall. The fall in Singapore's trade share was mostly accounted for by a 7 per cent rise in Indonesia's share of ASEAN6 services trade from 2008 to 2011. Indonesia accounted for 20 per cent of Australia's services trade in the ASEAN6 group in 2011. Thailand and Malaysia were Australia's third and fourth most important services trading partners in ASEAN6 in 2011, accounting for 18.5 and 16 per cent respectively.

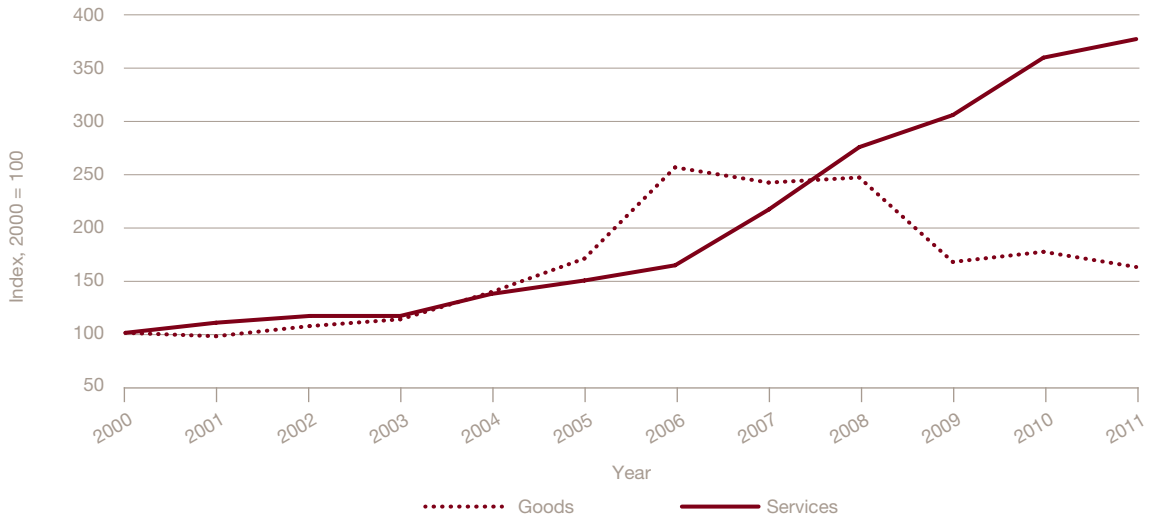
Figure 5: ASEAN6 Index



ASEAN: CLMV

Australia's trade in services with the CLMV group of countries accounted for 4.8 per cent of our total trade in services with Asia in 2011. Australia's overall trade with the CLMV group of countries is dominated by the services sector. In particular, since around 2008 services trade has escalated in contrast to declining trade in goods. Vietnam accounts for the bulk of Australia's trade with the CLMV group, and its share of overall services trade in Asia16 has been steadily increasing over time, albeit from a small base of 2 per cent in 2000 to 4 per cent of overall services trade with Asia16 in 2011.

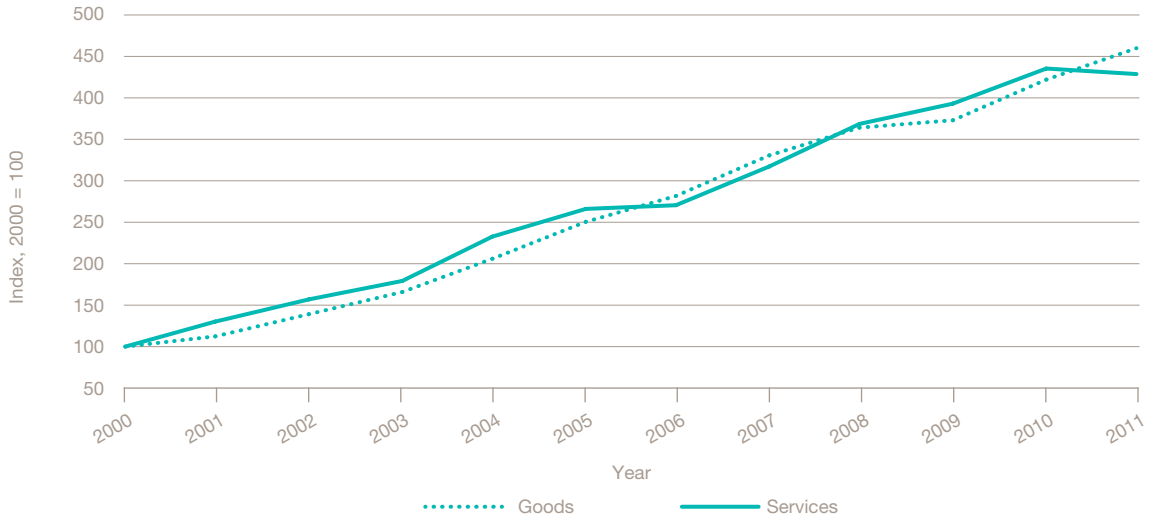
Figure 6: CLMV Index



China

China has displaced Japan as Australia's most important international trading partner in recent years. Its overall size, rapid economic growth over the past couple of decades, geographic proximity to Australia and demand for mineral resources has contributed to this development. While economic growth in China slowed in 2008 (to a still strong 9.6 per cent from a rapid 14.2 per cent in 2007), in large part this was regarded as desirable given perceptions of an overheating economy. Thus ongoing strong economic growth in China (in contrast with a decline in GDP of 3.6 per cent in the advanced economies in 2008) and demand for resources meant there was no evident downturn in Australia's trade with China as a result of the GFC. China accounted for around 20 per cent of Australia's total global trade in goods and services in 2011, up from just 13 per cent in 2008. As shown in Figure 7, trade in both goods and services has grown steadily and rapidly since the year 2000, by 360 per cent in the case of goods and 340 per cent for services. China's share of Australia's total services trade in Asia16 has risen sharply from 7 per cent in 2000 to 17 per cent in 2011. A huge jump in Australia's education service exports to Chinese students has been a major driver in this overall services trade increase. China accounts for 37.6 per cent of Australia's overall trade in education services in Asia.

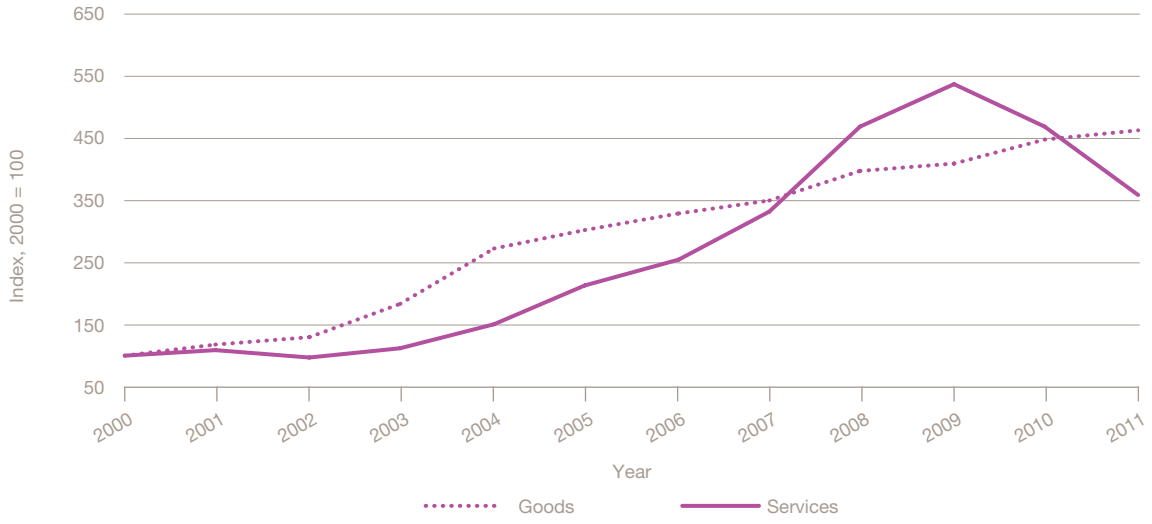
Figure 7: China Index



India

India's share of Australia's total services trade with Asia16 tripled from just 3 per cent in 2000 to 9 per cent in 2008, before moderating to 7 per cent of total services trade with Asia in 2011. Australia's services trade with India is dominated by education services, which accounted for around 90 per cent of total services trade with India in 2011, up from 74 per cent in 2000. India is Australia's second most important education services trading partner in Asia, accounting for 15 per cent of total education services trade in 2011. Exports (that is, students travelling to Australia to study) dominate this trade. The sharp downturn in services trade since 2008 shown in Figure 8 reflects, largely, a downturn in Indian students coming to Australia to study. This in turn was due to a sharp appreciation of the Australian dollar[3] following an earlier decline with the onset of the GFC, as well as a questioning within India of Australia's reputation as a quality education provider. Telecommunications and IT is India's second most important area of services trade with Australia, accounting for 5.1 per cent of the total in 2011. (This industry falls within the 'Other' services category shown in Figure 4.)

Figure 8: India Index



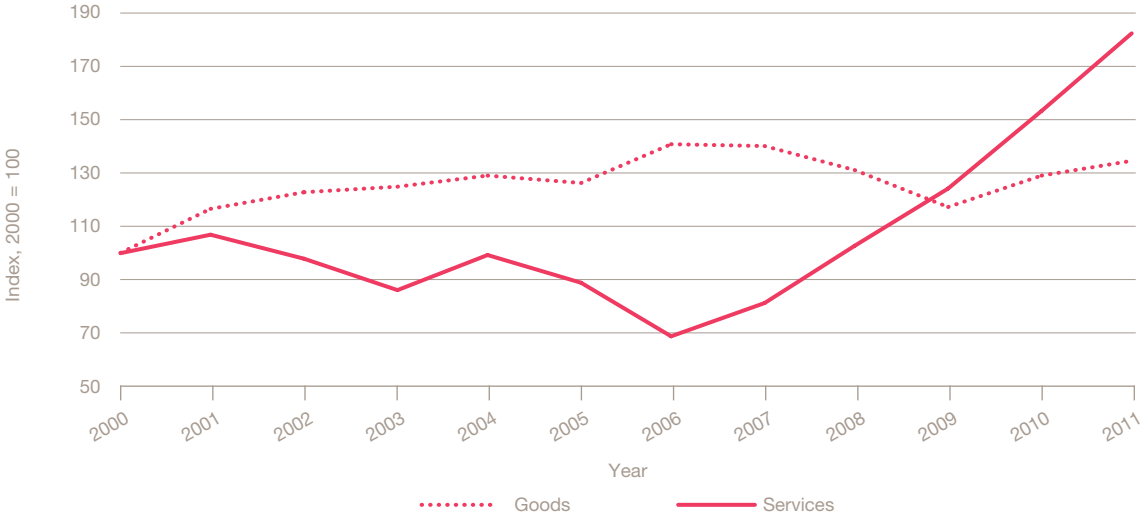
Indonesia

Indonesia's share of Australia's total services trade with Asia16 was unchanged at 9 per cent between 2000 and 2011, albeit dropping to 5 per cent in 2008, as shown earlier in Figure 3. As in much of Asia, growth in Indonesia slowed in 2009 as the GFC escalated, however, by advanced country standards this dip in growth to 4.6 per cent (from 6 per cent in 2008) was short-lived and mild, and this modest slowdown in growth had no evident impact on Australia's goods and services trade with Indonesia. In actual fact, services trade with Australia was declining markedly ahead of the GFC, as shown in Figure 9. This decline likely reflected a sharp fall-off in tourism imports (Australians travelling to Indonesia) in the wake of the Bali bombings in late 2002. However, this downward trend in services trade has been sharply reversed since 2006. The strengthening of the Australian dollar since 2007 and 2008 will be playing a role in encouraging Australians to travel to Indonesia on vacation – personal travel by Australians accounts for around 80 per cent of services imports from Indonesia. Trade in education services is the second

3 Compared with the average rates during 2007 and 2008, by end December 2010 the Australian dollar had risen 20 per cent against the US dollar, 13 per cent on a TWI basis, and 9 per cent against the Chinese *renminbi*. By end 2011 the comparable figures were 20 per cent, 13 per cent and 4 per cent.

most significant area of services trade between the two countries but this has fallen sharply in relative importance within the broader Asian context, from 16 per cent of Australia's total education services trade with Asia16 in 2000 to 5 per cent in 2011.

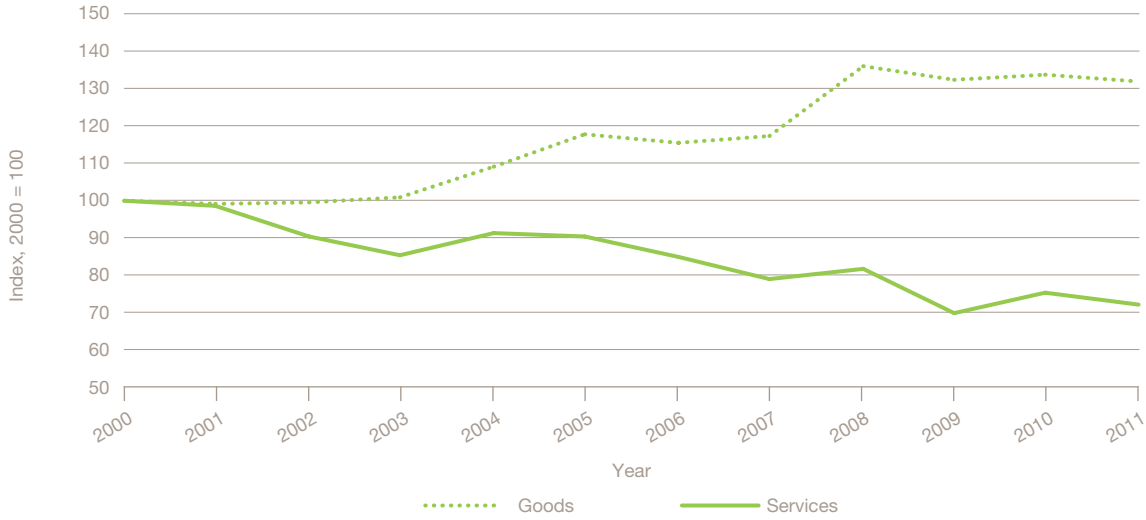
Figure 9: Indonesia Index



Japan

Having been Australia's major overall trading partner in Asia for decades, Japan was recently overtaken by China, due partly to ongoing low economic growth (since the early 1990s) in Japan as its population ages, but also due to the sharp increase in demand from China for Australia's mineral resources from 2003 as China's economic growth and development escalated. As shown in Figure 3, the share of Australia's services trade with Japan has fallen sharply from 26 per cent of total services trade in Asia in 2000, to less than half this in 2008 and just 10 per cent of total Asian services trade in 2011. As shown in Figure 10, Australia's services trade with Japan has been declining fairly steadily since the year 2000 (28 per cent by 2011) while goods trade rose by 32 per cent during the period 2000 to 2011. During the three years since 2008 goods trade has flattened while services trade has continued to moderate. Transport services followed by business services have been the major areas of services trade between Japan and Australia in the past decade. However, Japan's share of Australia's Asian services trade in both of these sectoral areas has almost halved between 2000 and 2011. The balance of trade (that is, exports *less* imports) in services between Japan and Australia was a small negative (of $173 million) in 2011.

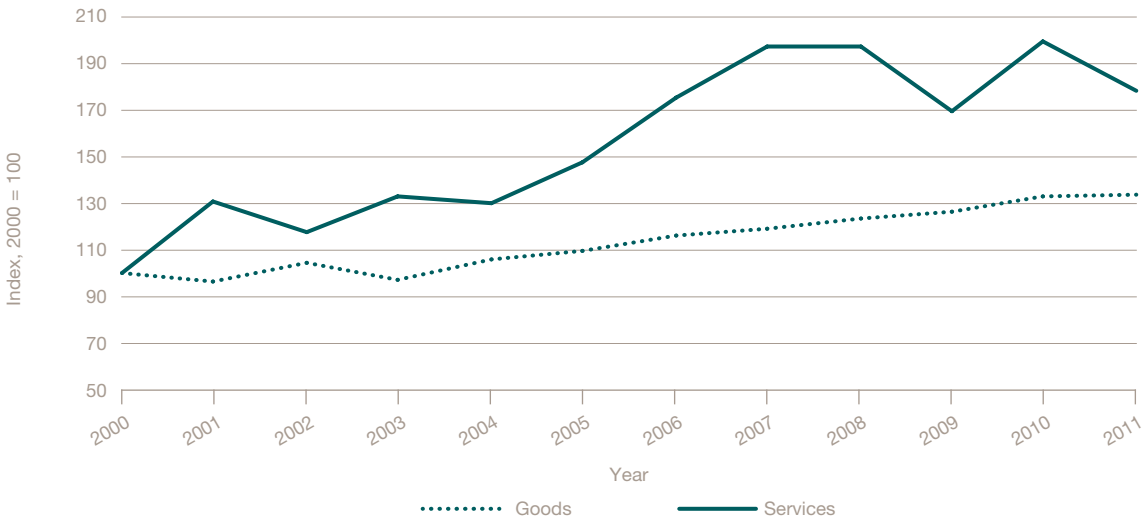
Figure 10: Japan Index



Republic of Korea

The Republic of Korea is Australia's fourth largest trading partner (after China, Japan and the United States) and the third largest export market in 2011. Korea accounts for 5.4 per cent of Australia's total global trade and 8 per cent of exports. Korea's share of Australia's total services trade in Asia has been fairly steady at around 5 per cent since 2000. Having said this trade has increased by around 90 per cent since 2000, as shown in Figure 11. Meanwhile, goods trade has grown more modestly over the period but from a higher base: the value of goods trade between Australia and Korea in 2011 was almost 14 times that of services trade between the two countries. Services trade between the two countries is dominated by educational services followed by transport services. The Republic of Korea accounts for about 9 per cent of Australia's educational services trade in Asia and about 4 per cent of transport services trade.

Figure 11: Korea Index



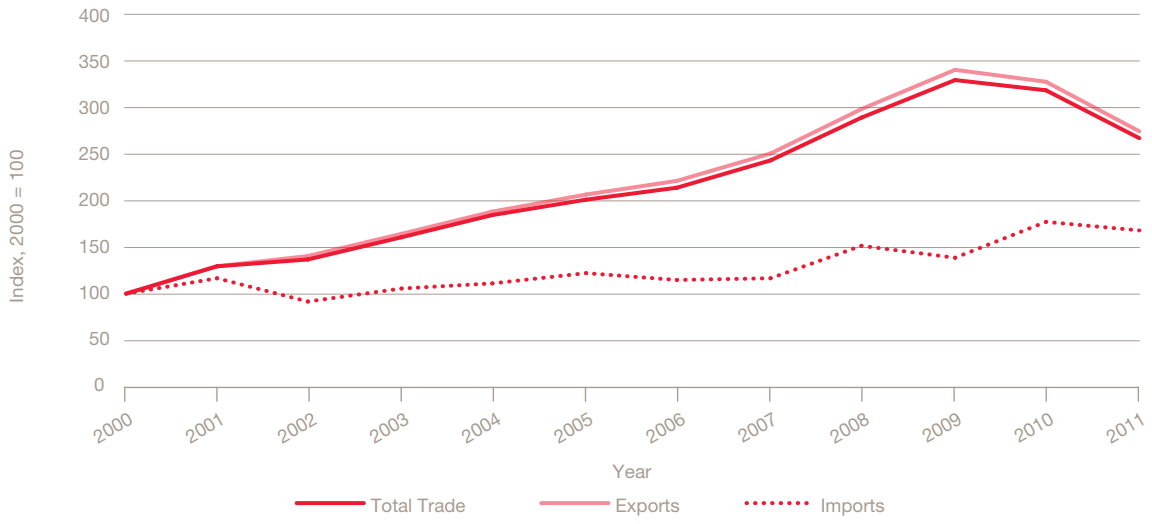
Education

Education Analysis: Professor Simon Marginson

Education is Australia's largest services export, constituting 30.2 per cent of exports to all countries in 2011. After coal and iron ore, education is Australia's third or fourth largest export overall.

In 2011 exports of education services to the Asia16 were $9.80 billion in 2007-08 prices. This was 48.2 per cent of all Australian services exports to Asia. In 2011 trade in education services with Asia represented 70.7 per cent of Australia's total trade in education services.

Figure 12: Education Index (Australia's trade with Asia16)



Education exports to Asia increased by 173.7 per cent between 2000 and 2011. Education remains the most important driver of the growth in exports to Asia in that time.

Between them, China and India now sustain more than half of all educational trade in Asia. In 2011 education trade with China was 37.6 per cent of all trade in education with the Asia16. Trade with India represented a further 15.0 per cent.

Since 2000 trade in education with China has multiplied by almost ten times, to $3.82 billion in 2011. It now constitutes one dollar in every ten of Australia's total services trade in Asia, and 53.0 per cent of services trade with China. In 2011 trade in education with India was $1.52 billion, 54.7 per cent of all services trade with India although down from $2.38 billion in 2008.

Growth of Australian education exports has been driven by the growth of Asian middle classes during a period of rapid modernisation, a process which is anticipated to continue. The European Union Institute for Strategic Economic Studies estimates that the global middle class will grow from 1.8 billion in 2009 to 4.9 billion in 2030.[4] The majority of this growth will occur in China and India. The number of modern consumers is anticipated to multiply by six times in two decades, fuelling demand for English language education in Asia.

4 A. Vasconcelos (ed.) (2012). Global Trends 2030: Citizens in an interconnected and polycentric world, pp. 28-30. European Union Institute for Security Studies. http://www.iss.europa.eu/publications/detail/article/espas-report-global-trends-2030-citizens-in-an-interconnected-and-polycentric-world/.

Table 1: Value of trade in education between Australia and Asia16 countries and the rest of the world, $bn, 2007-08 prices

													Growth rate (%)		
Education	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2010-11	2008-11	2000-11
Asia 16															
Imports	0.21	0.24	0.19	0.22	0.23	0.26	0.24	0.24	0.32	0.29	0.37	0.35	-5.08	10.68	68.00
Exports	3.58	4.65	5.03	5.86	6.74	7.37	7.89	8.96	10.64	12.18	11.70	9.80	-16.24	-7.95	173.92
Total	3.79	4.89	5.22	6.08	6.97	7.63	8.13	9.20	10.96	12.47	12.07	10.15	-15.90	-7.41	168.07
ROW															
Imports	0.35	0.37	0.36	0.44	0.45	0.44	0.50	0.53	0.53	0.50	0.60	0.67	11.88	26.53	90.08
Exports	1.32	1.84	1.97	2.17	2.38	2.53	2.89	3.41	4.19	4.79	4.61	4.07	-11.79	-3.00	209.40
Total	1.67	2.21	2.33	2.61	2.83	2.97	3.39	3.94	4.72	5.29	5.21	4.74	-9.06	0.33	184.06

Since 2009, when the value of education exports to Asia peaked at $12.18 billion, the business environment has proven more challenging for Australian education providers. The period after 2009 saw significant fluctuations in key education export markets.

Larger impact of education exports

Despite the decline since 2009, education services exports remain strong. Education is a key aspect not just of Australia's trade with Asia but the nation's overall relations with countries in the region, especially China, India, Republic of Korea, Malaysia and Vietnam.

The core of the international education sector, and the most stable component in terms of numbers, is higher education. In 2011 higher education generated $9.9 billion in export income, 65.6 per cent of total onshore earnings from international education.[5] Four fifths of all students were from Asia.

In 2011 higher education enrolled 242,351 international students, 43.5 per cent of the total of 557,425 international students in all sectors that year.[6]

The Vocational Education and Training (VET) sector generated 20.6 per cent of all export income in 2011 and enrolled 171,237 students. This sector has displayed significantly greater volatility in exports, which have centred on private VET colleges and specialist English language institutes (ELICOS).

The ELICOS colleges offer English language teaching of up to one year in duration, enrolling 95,104 students in 2011 and generating 4.5 per cent of export income.

Secondary schools play a modest role, enrolling 20,868 students and generating 4.3 per cent of export income in 2011.

The scale of education exports, and the length of stay of many international students – much longer than average stays for tourism or business purposes – means that education exports have a major demographic impact in Australia and hence major effects in shaping present and future markets. At any time, international students constitute 3 per cent of all people in Australia. International education is also partly integrating Australia into the Asian region in the longer term. Graduate international students also make a significant contribution to Australia's skilled migration program. The introduction of 2-4 year Post-Study Work Visas for international graduates, together with the upgrading of requirements for language proficiency and work experience at point of application for permanent residence, is expected to strengthen the education-migration pathway, and productivity outcomes for the Australian economy, by improving the work readiness of skilled migrants.[7]

The majority of graduates return to their home countries, where many go on to contribute to the growth of economic, diplomatic, political, social and cultural ties between Australia and the Asia16. Half of all international students enrolled in higher education in Australia study a business-related program, and a further one quarter enrol in engineering and technologies. Many graduates enter trade-oriented occupations in their home countries, and some continue to move frequently between Australia and their countries of origin after graduation.

In sum, education exports generate many externalities and downstream benefits. The scale of the industry in Australia enables the Australian economy to capture an especially large share of those

5 Australian Education International (2011). Export income to Australia from international education activity in 2011. https://www.aei.gov.au/research/Research-Snapshots/Documents/Export%20Income%202011.pdf.

6 Australian Education International (2012). International Student Enrolments in Australia 1994-2011. http://www.aei.gov.au/research/International-Student-Data/Pages/InternationalStudentData2011.aspx#1.

7 This scheme begins in 2013. Persons who made student visa applications after 5 November 2011 are eligible. Bachelor or coursework Masters graduate will be eligible for a two-year visa, PhD graduates for a four-year visa. http://www.immi.gov.au/students/_pdf/2011-post-study-work.pdf.

benefits on the global scale. Proportionately, Australia has the highest ratio of onshore international students to local tertiary students of any OECD country. In 2009, 21.5 per cent of all onshore tertiary students were international students, well ahead of the UK (15.3 per cent), Austria (15.1 per cent), Switzerland (14.9 per cent) and New Zealand (14.6 per cent).[8] This proportion increased slightly to 22.3 per cent in 2010.[9]

Australia enrolled 7.0 per cent of all foreign students in the world in 2009, behind only the United States (18.0 per cent) and United Kingdom (9.9 per cent), and just ahead of much larger Germany (7.0) and France (6.8 per cent).[10]

Fluctuations in education exports

From 1990 till 2009 demand for international education places in Australia has substantially outstripped supply. However, since 2009 several factors intersected to inject a new element of uncertainty into this sector.

In India in 2009 and 2010, questions were raised about the reputation of Australia as a quality education provider, following negative international media coverage of violence affecting South Asian students in Melbourne, the withdrawal of government accreditation from a number of Australian private VET colleges recruiting students from India primarily for migration purposes, and the withdrawal of support for some education agents in India. At the same time the Australian government changed the skilled migration program to weaken the coupling of education and migration, reducing the number of training programs with preferred occupation status.

The federal government also took other steps designed to provide a stronger regulatory framework for the education export sector. It sponsored a review of international student programs by former parliamentarian Bruce Baird, a review of the Education Services for Overseas Students Act, and the preparation of an International Student Strategy by all Australian governments, in conjunction with education providers. These steps led to measures for better student safety and tuition protection, and more attention to graduate work opportunities.

The tighter regulation of quality in VET and closer control of agent behaviour was essential to the long-term strengthening of the export sector. In the short-term, in conjunction with negative publicity, these measures led to a sharp fall in student demand in India and also Nepal, which primarily affected VET.

In addition, with the objective of better managing net overseas migration, student visa processing was slowed, and DIAC applied more strictly the financial support requirements for student visas, especially in countries considered to be relatively high risk in terms of overstay. This included the major education export markets of India, China and Vietnam. Prospective students were required to demonstrate savings of $18,000 p.a. for each year of study ($72,000 for a four-year program), a higher financial hurdle than those imposed by competitors.

These factors, together with the appreciation of the Australian dollar, the increasing cost of housing in inner city areas, and the weakening of the education-migration nexus, triggered a decline in applications for student visas from most East and Southeast Asian countries. The slowdown of supply of visas subsequently triggered a fall in demand, as education agents, especially in China, shifted some student traffic from Australia to competitor nations.

By end 2010, compared with the average rates in 2007 and 2008, the Australian dollar had risen 20 per cent against the US dollar and 9 per cent against the Chinese renminbi.

In 2010-11 the total number of offshore applications for student visas was 141,622, which was 46.1 per cent below the peak of 262,705 in 2008-09. Total offshore visas granted fell from 226,898 in 2008-09 to 126,186 in 2010-11.[11]

Since then, the Government has accepted the recommendations of the Knight Report, including speedier visa processing, less severe financial support tests, less stringent limitation of student work during the period of study, post-study work visas, and the waiving of English proficiency requirements for students entering English-language training colleges, to improve the stability of education services exports.

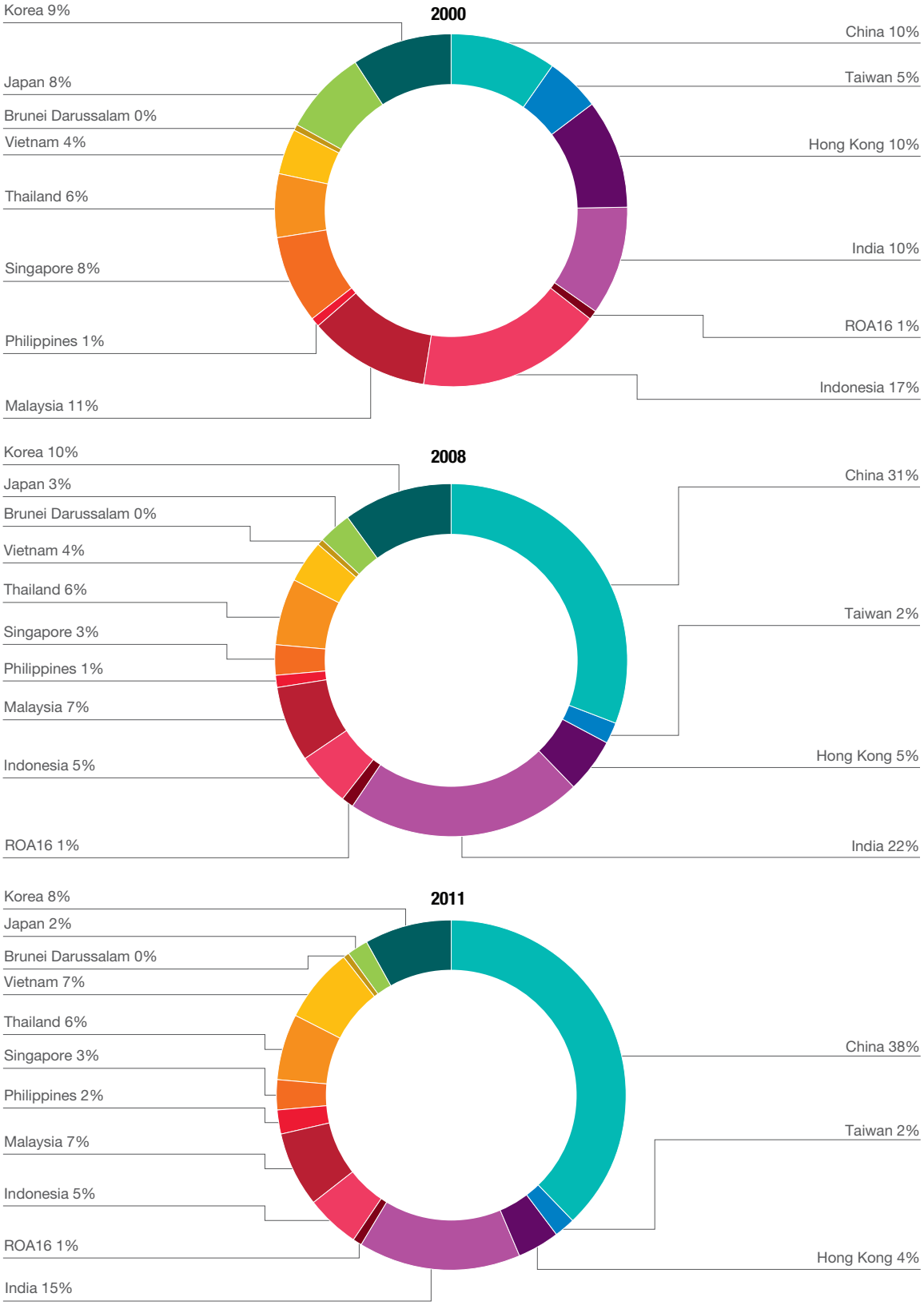
8 OECD, Education at a Glance 2011, p. 333.
9 Australian Education International (2011). Onshore higher education international students as a proportion of all onshore students by university. https://www.aei.gov.au/research/Research-Snapshots/Documents/International%20students%20in%20Australian%20unis%202010.pdf
10 OECD, Education at a Glance 2011, pp. 321-322. In the case of Germany and France the total of 'foreign students' includes many long-term residents without full citizenship.
11 DIAC (2012) Student Visa Statistics. http://www.immi.gov.au/media/statistics/study/.

Country by country trends

In 2011 Australia's largest education exports were to China ($3.75 billion), India ($1.50 billion), Republic of Korea ($0.78 billion), Vietnam ($0.71 billion), Malaysia ($0.70 billion), Thailand ($0.53 billion), Indonesia ($0.51 billion) and Hong Kong SAR ($0.40 billion).

The pattern of long-term growth in education exports, and the recent fluctuations, disguise marked changes in the country composition of trade.

Figure 13: Distribution of the value of trade in education services with Asia16 countries



In 2000, the ASEAN6 and CLMV countries together accounted for 48 per cent of Australian trade in education services with the Asia16. In 2011 the Southeast Asian countries together accounted for only 32 per cent. Indonesia's share of educational trade fell sharply during the first half of that period.

In absolute terms, between 2000 and 2008, total exports to the ASEAN6 and CLMV countries together increased from $1.82 billion to $2.87 billion (57.9 per cent). Between 2008 and 2009 exports rose by another 11.8 per cent to $3.21 billion, largely because of a sharp rise in trade with Vietnam, but then declined slightly to $2.98 billion in 2011, still 3.8 per cent above the 2008 level. Between 2008 and 2011 there was almost no change in total exports to the ASEAN6. Exports rose in the Philippines while falling slightly in Malaysia, Indonesia and Thailand.

In contrast, between 2000 and 2008 there was massive growth in exports to China and India. Their combined share of Asia16 trade in education rose from 20 per cent in 2000 to 53 per cent in 2008. In absolute terms total education trade with those two countries rose from less than half that of the Southeast Asian countries in 2000 to more than twice the level of trade with the ASEAN6 plus CLMV in 2008.

China's proportion of total Asia16 trade in education rose from 31 to 39 per cent between 2008 and 2011. India's share fell from 22 to 15 per cent.

40.2 per cent of all international tertiary students, nearly 50 per cent of international school students and nearly 30 per cent of students in intensive English language courses were Chinese. Educational trade with China rose throughout the period under discussion, from $0.4 billion in 2000 to $3.43 billion in 2008 (768.4 per cent) and $3.82 billion in 2011, another 11.2 per cent, of which $3.75 billion took the form of exports. Trade multiplied by almost ten times in eleven years. That is a truly phenomenal change. On the demand side, this reflects not only the growth of the Chinese middle class, and official Chinese encouragement for foreign education as one means of internationalising the Chinese economy, but also the growth of the specific industry of education agents in China.

In 2011 almost two thirds of all Chinese students in Australia were enrolled in higher education, 97,423 out of the national total of 159,691 Chinese students in all sectors. This was 40.2 per cent of all international students in higher education. A much smaller number, 18,513, were in VET. There were 27,662 Chinese students in ELICOS, 29.1 per cent of all ELICOS students. Nearly half of all international students in schools were from China (9,248 of 20,868), most of whom could be expected to enrol in higher education in future.[12]

However, exports from the China market have peaked for now. As noted, the number of offshore visas for students in China fell by 17 per cent between 2009-10 and 2010-11. Meanwhile, in 2010-11 the number of students entering United States higher education from China had risen 23.3 per cent from the 2009-10 level.[13]

Demand for international education—a niche part of the tertiary education market in China—will continue because a foreign education will continue to offer career advantages to certain families, especially those active in international business. Given future growth in the Chinese middle class, the number of such families will increase not decrease.

Total trade in education with India jumped from $0.36 billion in 2000 to $2.38 billion in 2008, partly driven by migration-focused demand in VET, and reached $3.02 billion in 2009, but fell again to $1.52 billion in 2011, However, by late 2011 there were clear signs of market recovery, following intensive State and Federal Government efforts.

Education trade with the Republic of Korea multiplied by three times between 2000 and 2008 but fell from $1.11 billion to $0.79 billion between 2008 and 2011 partly due to a sharp reduction in the number of Korean students in ELICOS (7,968 in 2011).

Educational trade with Vietnam grew from $0.20 billion in 2005 and $0.46 billion in 2008 to $0.73 billion in 2011, slightly down from $0.76 billion in 2010.

Vietnam now provides the fourth largest number of international students in Australia (23,738), having recently passed Malaysia. Of these students, almost half (10,967) were enrolled in higher education in 2011, with 5,671 in VET, 4,369 in ELICOS, and 2,193, the third largest grouping, in schools. However,

12 Australian Education International (2012), International Student Data 2011. https://www.aei.gov.au/research/International-Student-Data/Pages/InternationalStudentData2011.aspx#4

13 Institute of International Education (2012). Open doors 2011. http://www.iie.org/en/Research-and-Publications/Open-Doors.

recent falls in visa applications and in new students from Vietnam suggest the Vietnamese market was especially vulnerable to the 2010-2011 restrictions on the supply of visas, and the increase in comparative costs due to the high dollar. A survey of international students and agents in 2011 found that the market in Vietnam was particularly sensitive to the relatively high Australian requirement in relation to support funds.[14]

Educational trade with Malaysia grew by 91 per cent between 2000 and 2008 to $0.77 billion, but fell by 5.4 per cent between 2008 and 2011. Trade with Hong Kong SAR grew from $0.37 billion in 2000 to $0.71 billion in 2004 but has fallen each year since, down to $0.42 billion in 2011, as Hong Kong SAR's own universities have become significantly stronger in that period. Educational trade with Indonesia has declined sharply as a proportion of trade with the Asia16, falling in absolute terms from 2000 ($0.64 billion) to 2008 ($0.54 billion) in the wake of the Bali bombing and Australia's participation in wars in Iraq and Afghanistan. Trade has however picked up in 2011 ($0.55 billion).

Future prospects

The Knight Report changed the conditions that were weakening the global position of the export sector but did not trigger an immediate recovery. In the year to May 2012 the number of new international students in higher education fell by 8.1 per cent to 51,988, including a 9.1 per cent decline in numbers from China to 21,621 students. There was also a 9.4 per cent decline in commencements in the second largest higher education market, Malaysia, but a 22.8 per cent growth in new Indian students in higher education. In the year to May total international student numbers in higher education were down by 4.6 per cent to 193,066.[15]

VET commencements were down 9.4 per cent in the year to May 2012, including a further decline for India, while ELICOS saw a drop of 3.5 per cent. Foundation college numbers also fell, affecting future throughput to higher education. The most recent statistics for offshore visas suggest the decline in exports may have bottomed out. The falls in demand of 2010-11 are still working their way through the markets. Recovery has also been retarded by a continuing high Australian dollar, which has eroded Australia's long-standing cost advantage vis-à-vis the USA, the global market leader in education exports. However, changes to policy and regulation instigated by the Knight Report renewed the competitive position of the export sector in other respects. In the industry it is generally expected that growth will return and exports will fully recover.

14 Lawson, C. (2011), Studying in Australia: views from six countries, p. 4. Report prepared for AEI, Australian government.

15 Lane, B. (2012), 'Overseas market still in decline'. The Australian, 2 July. For fuller data see Australian Education International (2012), International Student Data, https://www.aei.gov.au/research/International-Student-Data/Pages/default.aspx.

Transport

Transport Analysis: PwC

The transport services linkages between Australia and Asia have strengthened since the Global Financial Crisis (GFC). This strengthening has been marked by an overall increase in the volume and value of trade. Underpinning this has been increased commercial integration as Australian firms expand into Asian markets and Asian firms open new service offerings and linkages to Australia.

In 2011, transport services trade (including both freight and passenger transport) between Australia and Asia accounted for a significant 45.4 per cent of Australian global trade in transport services. It was the most valuable of the four Index components under review here.

Transport services experienced a turbulent and unpredictable time during 2008 and 2009 in line with the GFC and associated trade-related slowdown. This resulted in a negative 23.9% year-on-year growth rate (2008-09) in total value of Australia's trade in transport services driven by a decrease of 32.5% in trade with Asia. This was compounded by a fall in world commodity prices in 2008 that sharply decreased Australia's export value. The major component of exports affected by the GFC was resource exports, with Asian trading partners our largest importer of these resources.[16]

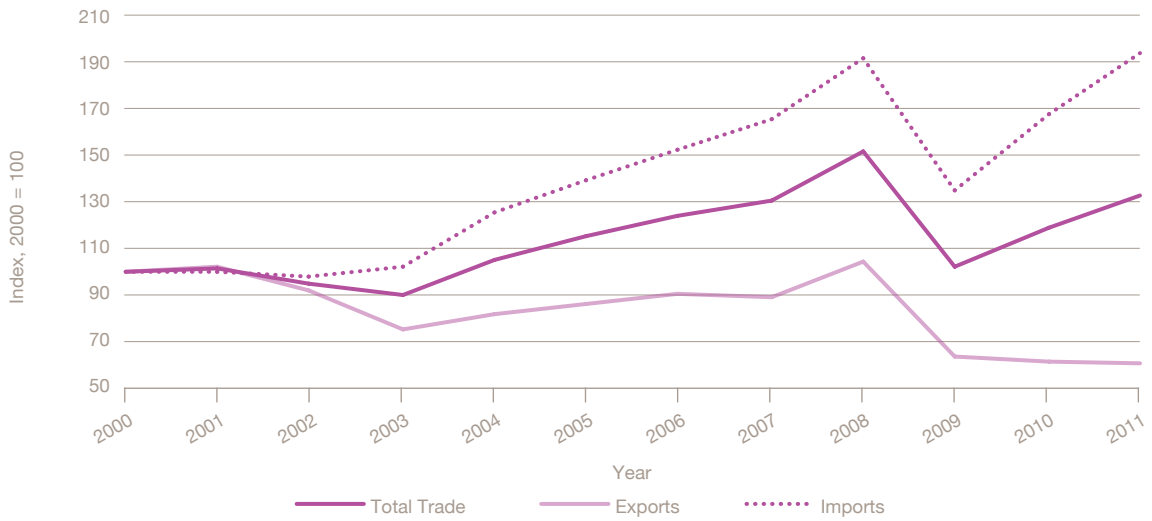
Table 2: Value of trade in transport services between Australia and Asia16 countries and the rest of the world, $bn, 2007-08 prices

													Growth rate (%)		
Exports + Imports	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2008-09**	**2009-11**	**2008-11**
Asia 16	7.8	7.9	7.4	7.0	8.2	9.0	9.7	10.2	11.8	8.0	9.3	10.4	-32.5	29.9	-12.4
ROW	11.7	11.1	10.9	11.5	12.6	12.9	12.7	13.2	13.3	11.1	12.5	12.5	-16.2	12.0	-6.1
Total	**19.5**	**19.0**	**18.3**	**18.6**	**20.8**	**21.8**	**22.4**	**23.4**	**25.1**	**19.1**	**21.7**	**22.8**	**-23.9**	**19.5**	**-9.0**

Since 2009, transport services have recovered strongly, driven primarily by the increased imports of these services, up 43.7% from 2009 levels to now be above pre-GFC levels. However, the export of these services has not recovered and is currently 58.2% lower than levels seen prior to the GFC. A potential driver of this divergence could be outsourcing or offshoring activities, especially in the manufacturing industry due to rising operational costs and the appreciation of the Australian dollar. The challenge of widening imbalances between imports and exports has raised concerns amongst transport service operators.

16 Department of Foreign Affairs and Trade, Australia's trade performance 1990-91 to 2010-11, available at http://www.dfat.gov.au/publications/stats-pubs/australias-trade-performance-1990-91-2010-11.pdf (accessed on 15 Aug 2012).

Figure 14: Transport Services Index (Australia's trade with Asia16)



Changing trading partners

In 2011, Australia's top three transport services trade partners were:

1. Singapore (34.5 per cent)
2. Japan (17 per cent)
3. Hong Kong (14.4 per cent)

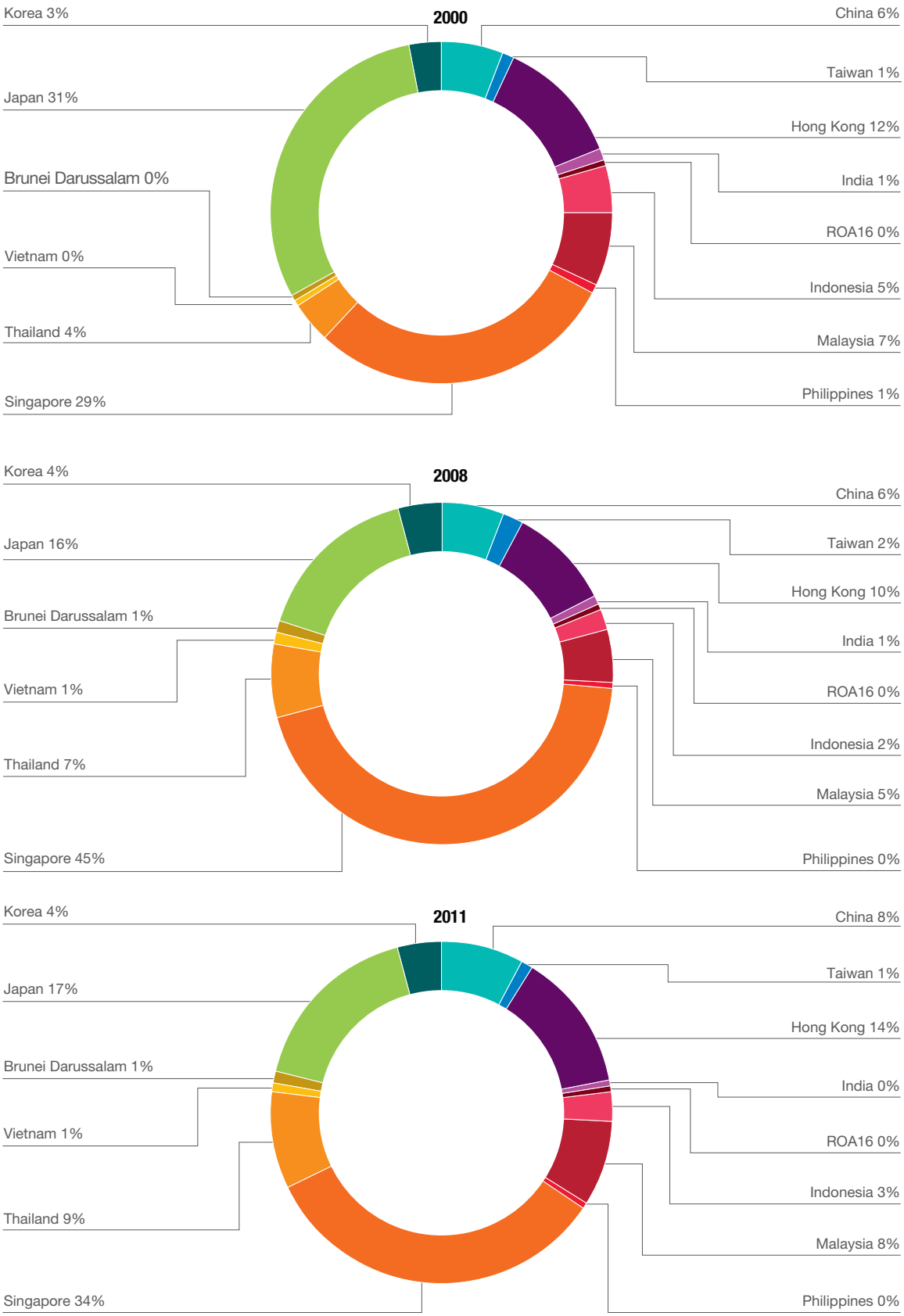
In 2000, Japan was Australia's largest trading partner, accounting for 31 per cent of the total value of trade in transport services with Asia. However, progressive restructuring of Japanese industry has seen a shift away from domestic production to the establishment of offshore locations, taking advantage of lower labour costs and tax incentives offered in neighbouring regions. Thus, part of the decline of Japanese trade between 2000 and 2011 is explained by this additional offshore link that has been added to the traditional Japanese supply chain.

Australia's transport services trade relationship with Singapore and Hong Kong is different to that with Japan. Both countries serve as regional hubs and gateways through which to enter growing markets in Asia. Together, Singapore and Hong Kong accounted for 49 per cent of the value of Australia's trade in transport services with Asia in 2011. However, given their roles as freight hubs, a proportion of shipments through these ports are likely to be transshipment flows that are then forwarded onto other ports. This implies that the final consumption of these services is likely to be lower within Singapore and Hong Kong than these figures suggest. Conversely, the flow of transport services to other Asian countries, which use these ports as linkages in the supply chain, is likely to be understated. For example, transport services trade between Australia and China was likely greater than the 8 per cent reported in 2011.

In addition, Singapore and Hong Kong are popular passenger stopovers in the Asia Pacific region as they are hubs for two world-class full services national carriers, Singapore Airlines and Cathay Pacific. BITRE reported that 17.2 per cent of passenger movements to/from Australia were either to/from or via Singapore, followed by Hong Kong which accounted for 8.0 per cent of the market in 2011.[17] Bangkok and Kuala Lumpur are also popular passenger hubs for long haul travel from Australia. Recent promotion of Thailand as a tourism destination, and the strong Australian dollar, have likely contributed to the increase in its share of value of transport services trade between Australia and Asia from 7 per cent in 2008 to 9 per cent in 2011.

17 BITRE (2012), Aviation – International airline activity 2011.

Figure 15: Distribution of the value of trade in transport services with Asia16 countries



Air transport

Freight

Scheduled international air freight traffic achieved a year-on-year volume growth of 4 per cent in 2011. Dedicated freight services accounted for approximately 20 per cent of total scheduled air freight, while the remainder was transported by passenger services.[18] The B747F is economically efficient on long haul freight-only routes and is the most popular air freighter servicing these Australian routes.

Air freight is used mainly for small-volume, high-value or urgent parcels. It is relatively expensive compared to other transport modes in cost per kilogram of mass. Air transport is used to transport freight such as electronics, documents, or high-value perishable goods. In Australia, there is a divergence in tonnage between air imports and exports. Generally, the tonnage of imports is approximately 50 per cent higher than exports for the same period. Live animals, fresh produce and meat were the largest export commodity to Singapore and Hong Kong in 2011. In terms of imports, engines, machines, motors and clothes were the most significant air freight items by weight. [19]

The slowdown in air freight volumes during the GFC was accentuated by the high-value and often discretionary nature of many of the associated products. However, volumes have also responded to economic recovery more quickly than other transport modes due to the advantage of a short lead-time for inventory replenishment. This characteristic of air freight often implies it is a solid short-term leading indicator for monitoring changes in broader trade flows.

While the long-term outlook for air freight services connecting Australia with the Asian region remains strong, the short-term outlook is less clear, due to volatility in fuel prices and increasing capacity outstripping demand. Some airlines are currently delaying receiving new fleet from Boeing and Airbus, with the rate of aircraft delivery likely to outpace projections for near-term growth in the air freight market.[20]

Passengers

The levels and nature of passenger flows, combined with recent carrier expansions within the region, point to a strengthening in ties between Australia and Asian counterparts.

Post-GFC, there has been reasonable growth in air passenger numbers, despite temporary impacts from natural disasters such as flooding in Queensland and the Japanese earthquake and tsunami. In 2011, 50 international scheduled airlines operated services to/from Australia. This resulted in a total of 28.1 million passenger movements, an increase of 5 per cent from 2010.

Southeast Asia accounted for the largest share of total operated seats (40.2 per cent) in 2011. This includes Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. The market share of Northeast Asia, consisting of China, Hong Kong, Japan, Republic of Korea and Taiwan, was 17.4 per cent, making it the third largest region behind New Zealand.

There have been changes in the nationality make-up of visitors to Australia since the GFC. Japan is no longer one of Australia's largest markets. Nowadays, middle-income Chinese seeking to travel to Australia are one of the highest growth markets. China has now surpassed the US to become Australia's third largest inbound market after New Zealand and the UK in 2011. Out of 5.9 million visitor arrivals, the share of Japanese visitors decreased by 16.5 per cent to 0.33 million, while over 0.54 million visitors from China arrived in Australia with a year-on-year growth of 19.4 per cent. Visitors from Singapore and Hong Kong increased by 3.4 per cent and 1.5 per cent respectively.[21]

While both Sydney and Melbourne recorded increased international passenger movements, strong growth was also evidenced in passenger movements out of Darwin and Cairns, a reflection of those cities' recent push to attract direct long haul connections to Asian markets.

In response to rapidly growing demand, capacity between China and Australia has been enhanced with

18 BITRE (2012), Aviation – International airline activity 2011.
19 Australian Airport – Air Freight Statistic. http://www.airfreightstats.com/index.asp.
20 Brogan, J (2011), A cloudy forecast for air freight, CSCMP's supply chain quarterly, special issue 2011.
21 Tourism Australia (2012), Quarterly market update.

up to 8,000 extra seats per week in 2011. There is also a trend of airlines utilising larger aircraft such as the A380 to increase route capacity. In addition, charter flights from Asia with luxury itineraries are increasing in prevalence during peak periods. For example, there were a total of 12 charter flights from China and Hong Kong to Australia during Chinese New Year in January 2012, providing more than 3,700 additional seats.[22] The trend of increasing air access between China and Australia is set to continue, with strong growth intentions signaled by China Southern and China Eastern to expand both the number of services and destinations serviced. This looks set to significantly increase direct access into key growth regions within China and unlock new markets.

The competitive environment occupied by airlines has changed since the emergence of low-cost or 'no frills' carriers. Demand for international travel, especially for holiday travel in Southeast Asia, has been driven by discounted fares. Low-cost carriers such as Jetstar and Air Asia have expanded significantly. Recently, Singapore Airlines launched Scoot on its Sydney/Gold Coast to Singapore routes. Jetstar became the leading low-cost Australian carrier in 2011, accounting for 7.8 per cent of total international passenger traffic. Qantas Group (Qantas and Jetstar) shared a total of 24.9 per cent of the international passenger market in 2011, down from 35 per cent in 2001.

Meanwhile, a record high Australian dollar increased Australian international outbound tourism. In 2011, ABS reported a year-on-year growth of 9.4 per cent in short-term resident departures. Trips to Southeast Asia grew by 16.4 per cent while Northeast Asia outbound trips decreased by 0.4 per cent.

Sea transport

Australia's sea transport is mainly divided between bulk and containerised cargo. Unlike air transport, sea freight is more export-oriented and is a prime beneficiary of the mining boom. In FY10, there were 1,052.4 million tonnes of cargo moved across Australian wharves, an increase of 12.2 per cent on FY09. Out of the FY10 total, exports accounted for 81.9 per cent and imports 8.1 per cent. 10 per cent was coastal or domestic shipping.[23]

With short to medium-term growth in China's GDP likely to be in the 7-9 per cent range, East Asia has become Australia's largest regional trading partner in terms of total weight and value of sea freight, followed by North Asia and Southeast Asia in second and third position respectively. There were 405.8 million tonnes of exports and 10.6 million tonnes of imports between Australia and East Asia in FY10, of which China accounted for 89 per cent and 77 per cent respectively.[24]

The top three ranked export commodities by bulk cargo weight were: *Iron ore and concentrates, Coal, coke and briquettes* and *Petroleum oil*. In terms of value, *Machinery* was the most important imported commodity and *Road vehicles and transport equipment* were ranked fourth. In FY10, total Australian fleet size was increased from 94 to 97 vessels, of which 28 were bulk carriers and 45 were container and general cargo ships.[25]

Bulk cargo

Bulk cargo refers to unpacked homogeneous cargo poured loose into a vessel's hold.[26] Shipments of oversized and heavyweight items that do not fit into a container, like mining machinery and construction steel, are also recorded as bulk cargo. The growing worldwide demand for bulk cargo is being driven by the rapid urbanisation of key Asian middle classes, which in turn has led to strong demand for steel and electricity. Exports of bulk cargo through Australian ports contributed a significant percentage of total cargo volume leaving via Western Australian iron ore ports at Dampier and Port Hedland. The majority of resource bulk exports were traded through regional ports with purpose-built infrastructure and equipment.

The Bureau of Infrastructure, Transport and Regional Economics (BITRE) has forecast an annual growth rate of 2 per cent for bulk cargo imports and 3.2 per cent for exports from 2010 to 2029-30, driven by rising demand in East Asia and Japan.[27] In response, some Australian ports are being urged to upgrade berthing facilities and stockpile/loading capacity to accommodate larger ships and rising demand.[28]

22 Tourism Australia (2012), Quarterly market update.
23 BITRE (2011), Australian sea freight 2009-10.
24 BITRE (2011), Australian sea freight 2009-10.
25 BITRE (2011), Australian sea freight 2009-10.
26 ISS Cargo, Glossary of shipping terms. http://www.iss-shipping.com/cargo/cargo_library_glossaryb.asp.
27 BITRE (2010), Australia maritime activity to 2029-30.
28 Shipping Australia Limited (2010), Break Bulk Shipping Study.

Liner shipping (containers and vehicles)

In Australia, containerised cargo accounted for a small percentage of the trade tonnage volume but a large proportion of value. Food and beverages (mainly wine) are the most common commodity exported in containers. BITRE forecast a strong annual growth rate of 4 per cent for containerised imports and 7 per cent for exports, aligning with the GDP growth rates predicted for many of Australia's Asian trading partners.[29]

The imbalance between exports and imports for Australia's containerised sea freight is a long-term challenge for shipping carriers. Table 3 lists the container throughput handled by Australia's five major ports (Brisbane, Sydney, Melbourne, Adelaide and Freemantle) in Twenty-Foot Equivalent Units (TEU). In FY10, ports in Sydney handled a total of 0.54 million empty TEU for exports compared to 0.20 million empty TEU for imports. Across the five ports, empty export TEU was about five times that for empty imports.

Table 3: FY10 Australian ports ranked by container throughput ('000 TEU)[30]

	Imports		Exports			
	Full	Empty	Full	Empty	Total	Percentage Share
Melbourne	1,090	113	806	384	2,393	39.0
Sydney	1,000	20	459	541	2,020	32.9
Brisbane	283	62	283	199	828	13.5
Fremantle	293	17	169	119	598	9.7
Adelaide	105	44	125	23	298	4.9
Total	**2,772**	**256**	**1,843**	**1,267**	**6,137**	**100.0%**

Benchmarking port TEU throughput against 100 international container ports located in 'end of shipping line' trading countries, Melbourne is ranked 51st and Sydney 70th. Singapore's port was ranked first followed by Hong Kong and Shanghai in China.[31]

Port services

Ports play an important role in the international supply chain. A port's efficiency is determined by the integration of port operations, stevedoring and resource supply chains. Some ports in Australia suffer from degrees of underinvestment in facilities and equipment for bulk cargo, partly due to a shifting of focus onto containerised capacity.[32] In the international context, the productivity in throughput of the five Australian capital city ports listed above was, with the exception of the Port of Melbourne, less than the median for overseas ports.

While regional ports, especially in Western Australia and North Queensland, are expanding to meet export trade demand for natural resources, other major ports need significant infrastructure upgrades in transport links, including:

- additional infrastructural capacity to accommodate increasing trade demand; and,
- upgrades to landside transport operations.

Governments are currently considering ways to attract more private investment in order to fund the backlog of port infrastructure development required. This will create an opportunity to enhance the efficiency and productivity of port operations. An example of this is the recent approved plans by the NSW Government to privatise Port Botany and Port Kembla, offering scope to increase efficiency.

29 BITRE (2010), Australia maritime activity to 2029-30.
30 BITRE (2011), Waterline 50, Table 5.1: Non-financial performance indicators, selected Australian ports.
31 BITRE (2009), Australian container ports in an international context.
32 Shipping Australia Limited (2010), Break Bulk Shipping Study.

Logistics

Logistics is a critical support function facilitating the efficient flow of goods through the supply chain to end destinations. Demand for such services largely depends on trade volume and trade patterns. The rapid expansion of the logistics industry is therefore being driven by globalisation. A recent tendency toward demand for more personalised services is changing some mass manufacturing to a made-to-order approach and leading to subsequent changes in supply chain design.

There is a continuing trend of Fast Moving Consumer Goods (FMCG) companies outsourcing their logistics function to a third party provider. This allows FMCG companies to focus on their own competitive advantages. Logistics companies are generally able to offer lower transport costs due to economies of scales. With the use of technology in information management, such as Radio Frequency Identification (RFID), FMCG companies do not lose visibility and real-time control of freight handling and tracking. The high penetration of smart phones encourages logistics providers to offer customers innovative services with a better value proposition.

Toll and Linfox are Australia's two leading logistics providers specialising in global supply integration, warehousing and distribution operation. Both have a strong presence in Asia, including Singapore, Malaysia, China and Hong Kong. Toll is also actively growing its business services in Asia through mergers and acquisitions. For example, the acquisition of DPEX operations in Singapore, Hong Kong and China was completed in 2010, extending Toll's express freight reach into Asia.[33]

As emerging Asian markets continue to grow, a host of opportunities for Australia logistics service providers of all sizes and models will open up.

Future prospects

With strong long-term trading relationships, enhanced commercial interconnectivity between Australian firms and Asian markets (and vice versa), and stronger economic growth prospects in Asia than those for Europe or Northern America, transport services trade between Australia and its Asian neighbours looks very positive.

However, Australia faces some constraints in its transport infrastructure capacity, which may limit its ability to fully realise these opportunities. These constraints include:

- *Emerging infrastructure bottlenecks and capacity constraints*. Current forecasts indicate that without infrastructure development or regulatory reform to access arrangements, current infrastructure may struggle to adequately meet forecast shipping and airline demand.[34] For example, government analysis of Sydney (Kingsford-Smith) Airport suggests it may not be capable of accommodating projected demand by 2030 under current infrastructure constraints.[35]
- *The ability to source funds to alleviate these bottle necks*. Given the tight fiscal environment, government finances cannot absorb the costs of such investment, while the private sector continues to face challenges in sourcing domestic funding of this magnitude. As a result, offshore sources are increasingly being examined, including Asian investors.

33 Toll (2011), Annual Report 2011, Toll Group.
34 Tongzon, J. & Nguyen, H., (2009), China's economic rise and its implication for logistics: The Australian case, Transport Policy 16, 224-231.
35 BITRE (2012), Joint study on aviation capacity in the Sydney region.

Finance

Finance Analysis: Professor Kevin Davis

The scope for increased trade in financial services between Australia and its rapidly growing Asian neighbours is substantial. Not only will opportunities grow for Australian financial institutions to provide financial services to Asian firms and households. Increasing financial development and sophistication in Asian economies will lead to financial institutions in those countries becoming increasingly competitive with Australian financial firms in supplying financial services to Australians. Indeed, a significant number of Asian banks have established branches within Australia.

But the available statistics on Australia-Asia trade in financial services – which importantly does not include the very significant investments in Asia of Australian financial service providers - would appear to suggest that this promise has not yet been realised. Indeed, Australia's trade in financial services with the rest of the world appears relatively miniscule compared with the sector's significant role in the Australian economy. Compared to the sector's GDP share of around 11 per cent, the largest sector in Australia by Industry Value Added, recorded trade in financial services with the rest of the world is extremely small. At the end of 2011 it accounted for around 3.5 per cent of total trade in services, which in turn is under 20 per cent of total trade in goods and services. Moreover, the Asian component of trade in financial services is quite small – particularly compared with the overall importance of Asia in Australia's trade.

However a very important caveat is required. Measured trade in financial services only picks up information on three of the four modes of cross-border provision of financial services. While it captures cross border sales and purchases, consumption by residents when abroad, and service provision abroad by presence of natural persons, it does not capture provision of services through the establishment of a foreign affiliate. Arguably, this latter is the most important method of providing financial services to foreign country residents, accounting for well over half of trade in financial services worldwide. Indeed, increasing expansion of banks and other financial institutions into foreign markets by way of subsidiaries, branches and joint ventures suggests that this method of service provision is increasing in importance. The Australia and New Zealand Banking Group Limited, Commonwealth Bank and Insurance Australia Group alone have invested over $6 billion dollars in recent years. Even this is a highly conservative estimate and does not include investment in infrastructure or personnel for the delivery of financial services in Asia.

Also relevant to interpreting the data is the recognition that provision of financial services typically involves a supply chain of activities ranging from front-office (customer interface) through to back-office (processing and recording). Some parts of this supply chain can be provided from geographically remote locations, such that financial products and services provided, for example, to Australians by local financial institutions may involve activities performed overseas. Offshore back-office processing of accounting data and IT operations, and operation of call centres, are typical examples. Such inputs into the financial services production process may be sourced from an overseas affiliate or a third party and some may be treated in the balance of payments statistics as involving trade in business or IT rather than financial services.

Indicative of the importance of direct entry into foreign markets for provision of financial services is data released in mid-2011 by the ABS.[36] In 2009-10 Australian entities had 1,245 finance and insurance foreign affiliates which employed over 75,000 staff, had over $28 billion in sales of financial services, and made a contribution to Gross Value Added of around $22 billion. While one-third of foreign affiliates were in the Asia-Pacific region, New Zealand accounted for 40 per cent of that, with over 50 per cent of the remainder being located in the regional financial centres of Hong Kong, Singapore, Japan, and China. Excluding New Zealand, sales of financial services in the Asia-Pacific region accounted for approximately one-quarter of the total $28 billion sales world-wide, and generated $1.6 billion in profit.

As Table 4 illustrates, of sales of financial services to foreign residents worldwide, exports of $1.3 billion are dwarfed by direct sales by foreign affiliates in the same country of $25.9 billion, indicating the importance of a local presence for Australian banks. What is also noticeable from Table 4 is that whereas provision of insurance services relative to banking services provided by Australian foreign affiliates is much larger in the UK and Europe, they are (with the exception of Hong Kong) relatively equally balanced in the Asian region. This may indicate considerable excess demand for banking services as opposed to insurance services in the Asian region, whereas in Europe, the more established domestic banking system controls the majority of the market.

Table 4: Sales of financial and insurance services by Australia (and its foreign affiliates), by mode of supply, 2009-10

	Local resident $m	Exports $m	Total Mode of Supply $m
Finance Services	**8,156**	**1,043**	**9,199**
China	48	14	62
Hong Kong (SAR of China)	636	112	748
Indonesia	128	5	133
Japan	132	23	155
New Zealand	3,254	76	3,330
Singapore	356	92	448
Thailand	22	1	23
United Kingdom	1,104	159	1,263
United States of America	744	151	895
Other	1,730	407	2,137
Insurance Services	**17,722**	**293**	**18,015**
China	40	26	66
Hong Kong (SAR of China)	1,802	2	1,804
Indonesia	178	3	181
Japan	30	21	51
New Zealand	3,608	149	3,757
Singapore	302	4	306
Thailand	412	3	415
United Kingdom	5,424	8	5,432
United States of America	4,744	7	4,751
Other	1,181	71	1,252
Total	**25,878**	**1,336**	**27,214**

Source: ABS Cat. No. 5485.0, Table 4a.

Focusing solely on the measured figures for financial services exports and imports with Asia as shown in Figure 16, it is apparent that trade volumes picked up substantially in 2011 after a number of years of stagnation. The growth in 2011 was entirely attributable to exports, with imports remaining sluggish, after recovering somewhat in 2010 from the previous steep decline in volumes. This fact highlights the importance of the finance sector to the Australian economy's resilience, showing that despite Australia's lack of demand for foreign finance services, demand from Asia for Australian financial services rebounded strongly.

Time series data on sales of financial services by Australian institutions' foreign affiliates (and also for foreign financial institutions operating in Australia) are not available. But it can be expected that they will follow a somewhat similar time pattern to recorded exports and imports of financial

36 Australian Bureau of Statistics, Cat. No. 5485.0 – Australian Outward Finance and Insurance Foreign Affiliate Trade, 2009-10. http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/5485.0Main%20Features22009-10?opendocument&tabname=Summary&prodno=5485.0&issue=2009-10&num=&view=.

services in response to global and local demand factors, although with less sensitivity to exchange rate movements, and also being affected by international expansion strategies of major financial institutions. As can be seen from Figure 16, demand for imports and exports of Australian financial services have been counter cyclical. This may suggest that in the future, the financial services sector has the potential to act as an 'automatic stabiliser' for the Australian economy.

The relative constancy of financial services trade with Asia over the second half of the "noughties" shown in Figure 16 needs to be considered in the context of a substantial decline in overall financial services trade associated with the Global Financial Crisis which emerged in 2007. Between 2007 and 2011 Australia's exports of financial services more than halved, such that Asia's share of the total increased from around 11 per cent to 40 per cent. The stability of services trade with Asia is therefore even more important when considered in light of the collapse in exports to the Rest of the World. Likewise, imports from the rest of the world plummeted between 2007 and 2010 before recovering somewhat in 2011, such that Asia's share remained relatively constant at around one-eighth.

Figure 16: Financial and Insurance Services Index (Australia's trade with Asia16)

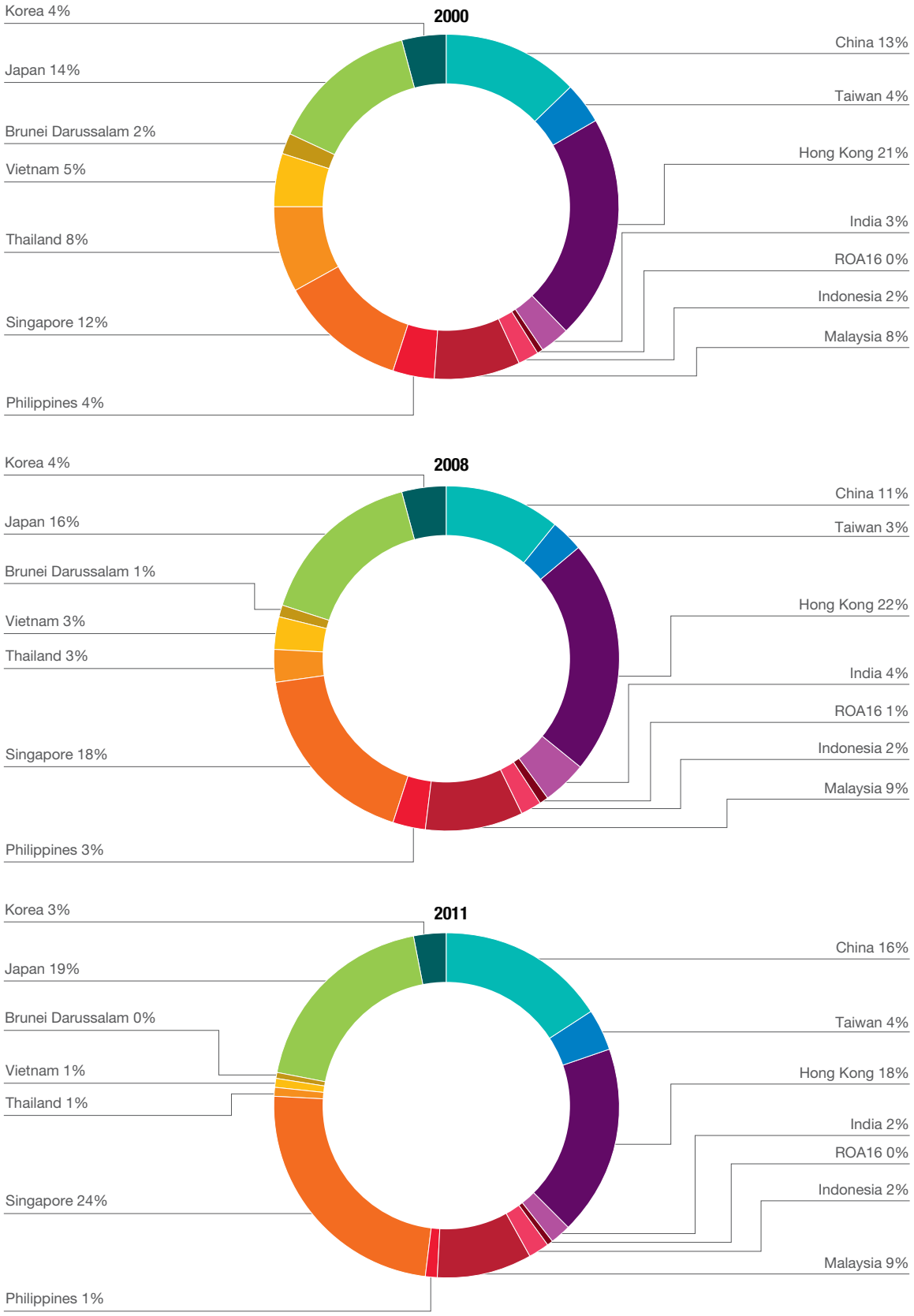
Also relevant for assessing the experience of financial services trade over the decade has been the marked change and volatility in the exchange rate over that period. From a value of around fifty at the start of the decade, the Trade Weighted Index appreciated to over seventy in mid-2008 before collapsing to the mid-fifties in early 2009. It then recovered to the mid-seventies by end 2010 and has fluctuated around that region since. In the face of such a significant exchange rate appreciation (and decline in competitiveness) the growth in the volume of exports of financial services shown in Figure 16 is noteworthy. (However, the absence of a specific price deflator for financial services trade means that the calculation of volumes by use of a more general price deflator, as is done in deriving Figure 16, requires some caution in interpreting the figures).

Turning to the geographic composition of trade depicted in Figure 17, the concentration of trade with countries that are also regional financial centres (Japan, Hong Kong, Singapore, China) is marked. Those four countries accounted for 78 per cent of financial services trade with Asia in 2011, compared with a 55 per cent share in total financial services trade. Over the decade, their share of financial services trade has increased from 59 per cent in 2000 to 67 per cent in 2008, to its current share of 78 per cent.

This high share of trade with regional financial centres is not surprising, since trade in financial services is more likely to be focused upon intra-industry and wholesale market activities rather than provision of retail financial services. Cost, information and regulatory factors have meant that distant foreign producers of retail financial services have generally been at a competitive disadvantage to local entities. Consequently, establishment of a local presence has been the principal way of providing such services to a foreign retail market – and this activity is not captured in the trade figures. Looking ahead, however, the increasing ability of individuals to access financial services provided offshore via the internet suggests that the retail component may become more important – although national regulations based on prudential investor/consumer protection considerations are an impediment to such growth.

Of course, many financial services are inherently linked with underlying trade transactions, such that the important role of financial centres such as Hong Kong and Singapore as trading hubs also helps to explain their large share of financial services trade. The growth in overall trade with China, in addition to the role of Beijing and Shanghai as regional financial centres, is also relevant to explaining the growing share of China in financial services trade.

Figure 17: Distribution of the value of trade in financial and insurance services with Asia16 countries



Future prospects

As the data analysed above indicates, trade in financial services is strongest between regional and global financial centres. Hence, government policies toward developing or ensuring a role for their domestic financial centres as regional financial hubs are a potentially important determinant of future prospects. The Australian Financial Centre Forum Report released in 2010 provided a number of recommendations for developing Australia's role as a regional financial centre that have influenced Australian government thinking, although implementation has been slow.[37] One relevant development, however, has been the creation of a Financial Services Gateway to provide better information for foreign financial institutions seeking to provide financial services to the Australian market.[38]

Four other factors are particularly relevant in determining the likely future growth of financial services trade with Asia. The first is the ongoing economic and financial development within the region, which brings with it an increased demand for financial services and opportunities for trade in such services. The second is growth in the extent of regional economic integration with foreign companies (establishing cross-border presences) and individuals (via tourism, education, remittance requirements) requiring greater financial services from domestic providers. These factors suggest strong future growth in trade in financial services with Asia, although much of that will show up in growth of sales of financial services by foreign affiliates as major financial institutions increasingly undertake cross border expansion.

A third important factor is the strategic planning of financial institutions regarding geographic and product expansion opportunities. Many Australian financial institutions are actively seeking to increase their presence in Asian financial markets.

Strategies vary. ANZ's strategy is the most aggressive and envisages a role as a "super-regional" bank providing business and trade related financial services to companies in the region, development of a retail financial services presence where appropriate, and provision of institutional banking services. It envisages over a quarter of its earnings coming from the Asian region. CBA has also established a banking presence in several markets and has a presence in some insurance markets. The other major banks have been less focused on Asian expansion, although certainly not ignoring the opportunities and recognising the need to have a presence to facilitate increasing trade flows and business linkages between Asia and Australia.

In insurance, IAG for example already has an investment stake in its Asian ventures of $390 million with significant presences in Thailand, Malaysia and India. Economic growth and rising income levels are leading towards rapid expansion in demand for insurance across a range of products such as property and vehicle insurance, life and disability insurance, and business related insurance cover. Growth in provision of insurance services by Australian companies to Asia will be primarily by way of overseas expansion to establish a domestic presence, rather than by cross-border trade in financial services, although in many Asian countries foreign ownership restrictions exist, preventing or limiting modes of entry and/or the range of allowable product offerings.

The extent to which international trade negotiations and changes in government policies towards foreign ownership and tax treatment of foreigners facilitate further expansion of trade in financial services is the fourth important factor determining future trends.

Generally, the widespread financial deregulation of recent decades has meant that impediments to international trade in financial services are relatively low, particularly among OECD countries. However, they do remain significantly higher in many East Asian countries. Often such barriers reflect political and/or prudential regulation concerns rather than explicitly focused barriers to trade. Such prudential concerns tend to inhibit the cross-border provision of many financial services, which is increasingly possible with ongoing developments in telecommunications. National governments, naturally, are wary about offshore foreign institutions over which they have limited regulatory power providing financial services such as insurance, deposit taking, or investment services to their residents. In this regard, proposals such as an Asian Funds Passport, enabling managed fund products approved in one jurisdiction to be marketed in another would improve prospects for trade in financial services, but have yet to gain the necessary government endorsement.

International tax differences also create impediments to trade in financial services. For example, Australian fund managers have been generally tax-disadvantaged by the Australian tax system in providing management of offshore (non-Australian) investments to foreign investors. While tax changes have been mooted to overcome that impediment, they are yet to be fully implemented, and some ongoing uncertainties regarding withholding tax arrangements are also another impediment retarding even stronger growth in trade in financial services.

37 http://afcf.treasury.gov.au/afcf/content/default.asp.
38 www.austrade.gov.au/Gateway/.

Business Services

Business Services Analysis: Professor E A (Selva) Selvanathan

In recent years, at the micro level, the business services sector has grown to become the fundamental tool for the successful operation of any modern business. As such, the business services sector, defined as a broad range of activities that facilitates or supports any business entity or any activities in many other sectors of the economy, has proven to be the backbone for the growth of many economies. This sector's significant contributions to national economies have been many and varied; but, in the main, it has contributed to employment growth, to increased levels of productivity, and to various forms of innovation.

In Australia, the services sector contributes almost three-fourths of the nation's GDP and employs 85 per cent of the workforce, including 93 per cent of university graduates. Within this sector, the sub-sector of business services holds an important role through its links with almost all other services sectors, as well as with other sectors of the economy. As can be seen from Figure 2, the growth of the Australian business services sector has been steady and, among the services sub-sectors, second only to educational travel. Even though, in general, business services do not produce a tangible commodity, they usually play a significant role in supporting various business entities. For example, information technology (IT) is an important business service that not only supports the services sector but also all other sectors of the economy in a significant way.

Although it is difficult, at the macro level, to measure the impact of business services on an economy, several firm-level research studies have confirmed that the positive spillover effects of business services have aided individual firms in the services sector, as well as other sectors of an economy in improving their productivity.[39] In recent times, there has been some progress made in the measurement of output and prices for business services such as legal, accounting and consultancy, computer, architectural and advertising services. [40] Due to the increasing costs of business services in developed nations, many firms in these countries have been off-shoring a range of business services to countries such as India, where they can utilise lower-cost labour in a talented workforce.

A recent survey, conducted by the Australian Industry Group and Commonwealth Bank,[41] showed that whilst growth in Australia's services sector, overall, remained subdued during late 2011, some of the business services sub-sectors have performed extremely well in comparison with all other sub-sectors.

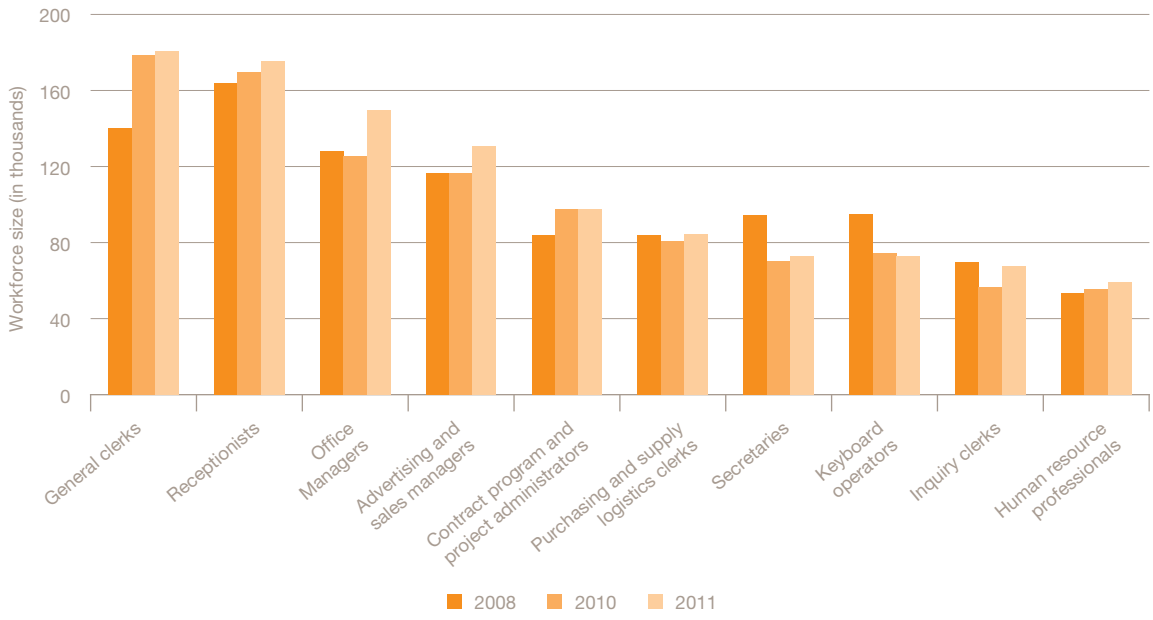
The business services sector has been a major contributor to the Australian economy and employs a significant proportion of the Australian labour force. This sector is made up of small, medium and large multinational and franchise businesses that provide business services to all sectors of the Australian economy. Australian employees, in this sector, are well trained and are specialists in their respective fields. Hence, they are fully capable of providing the services required by the different sections of the economy.

Figure 18 below presents the workforce size for some of the important Australian business services occupations for the years 2008, 2010 and 2011. As can be seen, aside from the secretariat and

39 For example, see Lesher, M. and H. Nordas (13 December 2006) 'Business Services, Trade and Costs', OECD Trade Policy Working Paper No. 46,.
40 Varjonen, S. (2005) 'OECD-Eurostat 2005 Inquiry on National Collection of Services Producer Prices', OECD Statistics Directorate.
41 Christine Gaylican (5 January 2012) 'Australian Business Services Sector (Property, Finance, Insurance) Rebounds in December'. http://au.ibtimes.com/articles/276622/20120104/australian-business-services-sector-property-finance-insurance.htm.

keyboard sector, there has been employment growth in each of the occupation sub-groups over the past four years. According to DEEWR's *SkillsInfo Industry Outlook*,[42] the business services sector, as a whole, will continue to have positive employment growth in the next two years. The same report highlighted the finding that the median age of the workforce in the business services sector varies between 30 and 50 years of age, depending on the specific type of occupation. In terms of gender, some sub-sectors of the business services sector have proven to be male-dominated (for example, in managerial services, males control approximately 70 to 85 per cent of the sub-sector), whilst some other sub-sectors are female-dominated (for example, in the secretariat/receptionist/keyboard operators services sectors, 85 to 98 per cent of employees are females).

Figure 18: Trends in the size of the workforce in Australia's business services sector by occupation



Source: ABS Labour Force Survey, DEEWR trend data to November 2011.

Value of business services trade

Columns 2–7 of Table 5 present the Australian dollar value of Australia's exports, imports and total trade of business services with the Asia16 and the rest of the world (ROW), for the years between 2000 and 2011; and columns 8-13 present the corresponding annual growth rates. The last row of the table gives the averages of each column. There appears to have been a steady growth in both Australia's business services exports and imports over these years, for both Asia16 and ROW, with a stabilisation in the last two years of the study period. However, there is a large discrepancy between the rates of growth between these two groups. On average, the rate of growth for Australia's business services exports to Asia16, at 7.3 per cent per annum, far exceeds that of only 2.7 per cent per annum for ROW. On the other hand, the business services imports from Asia16 and ROW to Australia increased at a similar rate, being 8.1 and 9.1 per cent per annum respectively.

Concurrently, the annual growth rate of Australia's total business services trade with Asia16 is about the same as that with the ROW. Explanations for the negative growth between 2009 and 2010 could include the debt crisis in Europe and the high Australian dollar; this latter would have had a negative impact on consumer and business confidence. However, against these odds, Australia's business services, for both imports and exports trade, with Asia16 continued to grow positively in 2011. In 2011, Australia's business services exports to Asia16 were about one-third of that to ROW and, in comparison, imports from Asia16 were one-fifth of that from ROW. Over the period 2000-2011, net business services trade with Asia16 was almost nil, whilst that with ROW was not in Australia's favour, as Australia's imports of business services from ROW exceeded its exports.

42 Environment Scan 2010, Innovations and Business Skills Australia, Business Services Industry.

The exports and imports data, used in Table 5, incorporates a number of business services data sources in its construction. This includes Australia's international trade in legal and accounting services, market research, architecture and engineering services, professional and management consulting (including design, project management, community consultation in infrastructure development, labour recruitment etc.), scientific and other technical services, agriculture and mining services, as well as charges for the use of intellectual property and payments for licenses to reproduce such work as books and manuscripts, computer software, cinematographic works, and sound recordings. The values of exports and imports also take into account the various types of business services defined in the ABS classification of Business Services.[43]

Table 5: Value of trade and annual growth rates for exports, imports and total trade, Australia with ASIA16 and ROW, 2000-2011

	Value of trade (in $bn), 2007-08 prices						Annual growth rates					
	Asia16			ROW			ASIA16			ROW		
Year	Exports	Imports	Total trade	Exports	Imports	Total trade	Exports	Imports	Total trade	Exports	Imports	Total trade
1	2	3	4	5	6	7	8	9	10	11	12	13
2000	0.85	0.78	1.63	4.10	4.07	8.17						
2001	1.16	0.83	1.99	3.99	4.27	8.26	31.09	6.21	19.96	-2.72	4.80	1.10
2002	1.24	0.85	2.09	4.13	4.47	8.60	6.67	2.38	4.90	3.45	4.58	4.03
2003	1.33	0.94	2.27	4.11	4.89	9.00	7.01	10.06	8.26	-0.49	8.98	4.55
2004	1.35	0.88	2.23	4.26	4.86	9.12	1.49	-6.60	-1.78	3.58	-0.62	1.32
2005	1.49	0.91	2.40	4.43	5.17	9.60	9.87	3.35	7.35	3.91	6.18	5.13
2006	1.71	0.99	2.70	5.22	5.50	10.72	13.77	8.43	11.78	16.41	6.19	11.03
2007	1.70	1.35	3.05	6.26	7.45	13.71	-0.59	31.02	12.19	18.17	30.35	24.60
2008	1.84	1.73	3.57	6.78	9.15	15.93	7.91	24.80	15.74	7.98	20.55	15.01
2009	1.89	1.99	3.88	5.83	9.05	14.88	2.68	14.00	8.33	-15.10	-1.10	-6.82
2010	1.66	1.84	3.50	6.07	9.98	16.05	-12.98	-7.84	-10.31	4.03	9.78	7.57
2011	1.90	1.91	3.81	5.50	11.08	16.58	13.50	3.73	8.49	-9.86	10.46	3.25
Mean							7.31	8.14	7.72	2.67	9.10	6.43

Business services index

Figure 19 shows the plot, in index form (where base 2000=100), of the dollar values, presented in Table 5 for Asia16, for the three time series data; namely, that of exports, imports and total trade.

As can be seen from Figure 19, Australia's business services exports to Asia16 systematically exceeded that of imports from Asia16 until 2007. However, from 2008 to 2011, there has been a reversal of this trend. Regardless of this reversal, the gap between exports and imports has been narrowing over recent years.

Australia's business services exports showed strong growth for most of the early 2000s, varying between 1.5 and 31.1 per cent, except for the negative growth experienced in 2007 and 2010. Aside from these two instances, between the years 2000 and 2008, exports increased by 124 per cent. In 2010, exports fell by 13.4 per cent from the 2009 level but bounced back by 13.6 per cent in 2011 to their 2009 level.

43 See Appendix 1 for ABS Classification definition of Business services and Appendix 2 for ANZ Business Services Index categories.

Figure 19: Business Services Index (Australia's trade with Asia16)

Australia's business services Index for imports from Asia16 has been systematically increasing, with growth rates varying between 2.4 and 31 per cent, except for dips in 2004 and 2010 (falling by 6.6 per cent and 7.8 per cent respectively). Overall, business services imports have increased by 156 per cent between 2000 and 2009, a growth rate that is much higher in comparison with that of the increase in exports during the same period. Furthermore, in 2010, imports fell by 7.8 per cent from their 2009 level, followed by an increase of 3.7 per cent in 2011.

Between 2000 and 2011, the business services total trade Index has shown a rather volatile trend, soaring by 139 per cent between 2000 and 2009, followed by a fall of 10.3 per cent in 2010 from the 2009 level, which was, in turn, followed by an 8.5 per cent rise in 2011. The fluctuations in these indices, in the later years, may be attributed to the slowdown in the global economy and the strong Australian dollar.

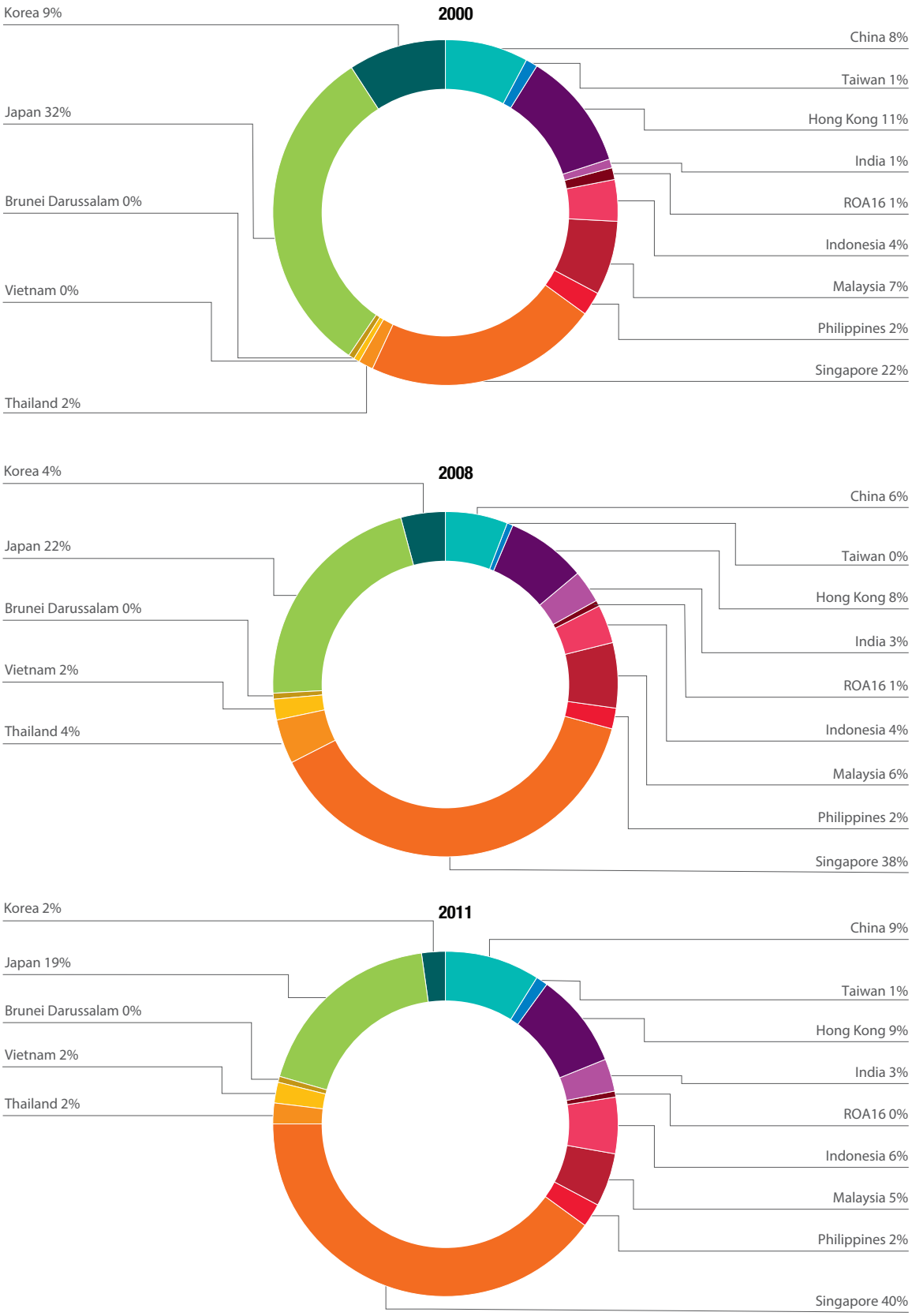
A similar trend in exports, imports and total trade indices is evident for ROW, with the exception of higher growth in the business services imports being accompanied by a declining trend in exports since 2008. As before, this could also be due to the uncertain economic environment and the strengthening Australian dollar against most other world currencies.

Business services trading patterns with Asia16

Figure 20 shows the percentage shares of trade in business services for the Asia16 countries in 2000, 2008 and 2011. Both Singapore and Japan have been the major trading partners for Australia's business services. Singapore has been Australia's major trading partner in Southeast Asia, especially since the Singapore-Australia Free Trade Agreement (SAFTA) came into effect in 2003. China, Hong Kong and Indonesia have also enjoyed a considerable share of business services trade with Australia.

Looking at the trends in business services trade with Asia16 over the past 11 years, the share of Australia's business services trade with Singapore has increased steadily from 22 per cent in 2000 to 37 per cent in 2008 and 40 per cent in 2011. The shares of Australia's business services trade with China, India, Indonesia and Vietnam have also increased. However, any such increases in the percentage share have been very small in comparison with that for Singapore. Even though Japan is still a major trading partner for business services with Australia, its share has declined significantly (from 32 per cent in 2000 to 19 per cent in 2011). There has also been a steady fall in the Republic of Korea's share of this trade (from 9 per cent in 2000 to 2 per cent in 2011) and that of Hong Kong (from 11 to 9 per cent). Most of the fall in trade with Japan, Korea and Hong Kong appears to have been captured by the increase in the share of trade with Singapore.

Figure 20: Distribution of the value of trade in business services with Asia16 countries



Future prospects

Despite the downturn in the global economy, it has been well documented that the Australian economy is doing better than most. However, Australia's business and consumer confidence is not as strong as it was a few years ago. One of the consequences of this may be the business services sector reducing their expenditure allocations for staff training. Should this happen, there could be a major impact on the business services sector if and when the global economy starts to recover. Furthermore, with the booming Australian mining industry, there has been a shift in the labour force to the mining sector from the services sector, mainly due to the attraction of higher wages. This, in turn, may create further skilled labour shortages in the business services sector, when the global economy re-enters a growth phase.

The other issue with business services sector growth is that it may hinder the sector's productivity if not enough attention is paid to research, development and innovation within the sector. In this respect, government assistance may need to be increased to the services sector, in general, and to the business services sector in particular.

It is now well documented, by the World Trade Organisation (WTO) and recent research studies into the business services sector, that Australian services firms are investing in overseas business activities. In order for such export activities to be successful and profitable, the role of Australian Government agencies abroad is crucial in providing information and advice on overseas business conditions. Furthermore, due to the increase in global outsourcing and specialisation, there will be considerable growth in businesses supplying services to other businesses and Australia's business services sector needs to be well-prepared to meet such demands.

Appendix 1: Definitions

Index

Each index is constructed using the corresponding value of trade at 2007-08 prices with 2000 as the base year and 100 as the base index value.

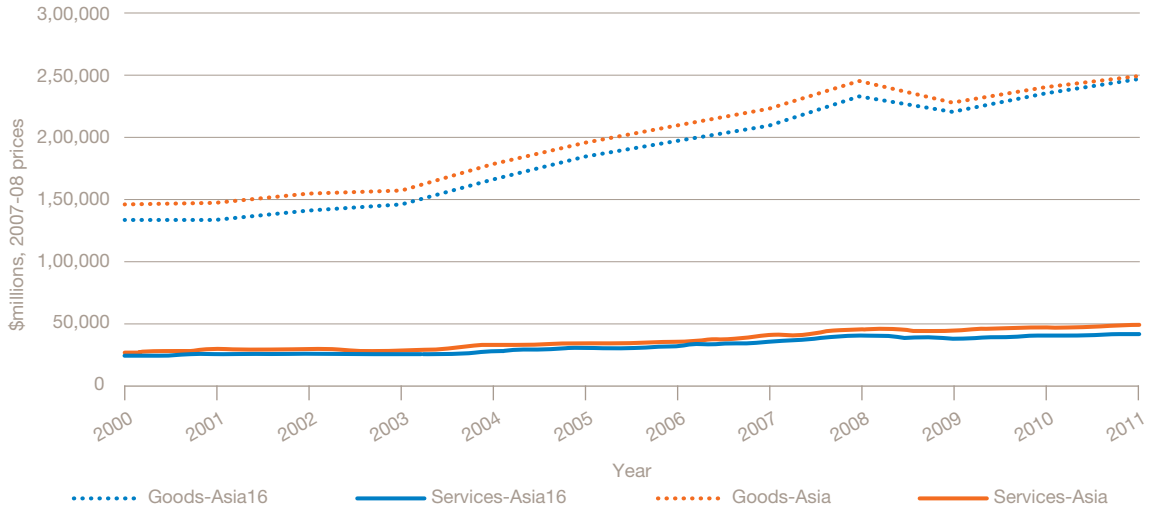
Asia16, ASEAN6, CLMV

Asia16 consists of Brunei Darussalam, Cambodia, China, Hong Kong, India, Indonesia, Japan, Republic of Korea, Laos, Malaysia, Myanmar, the Philippines, Singapore, Taiwan, Thailand and Vietnam.

Asia consists of all Asian countries including Asia16 as defined in the Australian Bureau of Statistics (ABS)'s publication based on Balance of Payment Statistics: *International Trade in Services by Country, by State and by Detailed Services Category, Calendar Year, 2008 BPM6 issue* (Cat. No. 5368.0.55.004).

As shown in Appendix Figure 1 below, the bulk of Australian trade with Asia is accounted for by Asia16 countries.

Appendix Figure 1: Total value of trade with Asia and Asia16



ASEAN6 consists of Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

CLMV consists of Cambodia, Laos, Myanmar and Vietnam.

The Australian Bureau of Statistics (ABS) publishes official statistics on Australia's trade in international services, compiled using international standards set out by the International Monetary Fund and the United Nations. The following provides an explanation of the relevant definitions used in this Index.

Education

Education services covers purchases of education-related goods and services such as tuition, food, accommodation, local transport, and health services by nonresident students, including those of their accompanying dependents. Educational travel excludes international transport by the nonresident students (which is included in Transport).

Transport

Transport services covers freight transport, passenger transport, and auxiliary services (e.g. handling and storage/warehouse charges, cleaning charges of aircraft, air traffic control etc.) via sea, air or other modes such as rail, road, pipeline and space transport (such as fees charged by NASA for launching a telecommunication satellite, or launch control or other services provided by Canberra's Deep Space Communication Complex). It also covers postal and courier services. Exports of passenger services consist of all services purchased by nonresidents from resident carriers for the international transportation of nonresident passengers. Imports of passenger services consist of all services purchased by residents from nonresident carriers for the international transportation of resident passengers. Freight services consist of the international transportation of objects other than people.

Business services

The ABS classification defines Business Services as "Charges for the use of Intellectual Property (IP) and Other Business". Charges for IP covers royalties and/or licensing payments for the use of proprietary intellectual property rights such as patents, trademarks, copyrights, industrial processes and designs, and trade secrets and franchises. They also include payments for licenses to reproduce and/or distribute "embodied intellectual property" such as copyrights on books and manuscripts, computer software, cinematographic works, and sound recordings such as broadcasting and live performances. "Other Business Services" includes research and development such as market research, media and new media, professional and management consulting, and technical, trade-related, and other services such as architecture engineering, waste treatment and depollution, agricultural, and mining services, and operating leasing services.

Finance

Finance services include:

- financial intermediary and auxiliary services provided by banks and other financial corporations, such as deposit taking and lending, letters of credit, credit card services, commissions and charges related to financial leasing, factoring, underwriting, and clearing of payments, as well as financial advisory services, custody of financial assets or bullion, financial asset management, monitoring services, liquidity provision services, risk assumption services other than insurance, merger and acquisition services, credit rating services, stock exchange services, and trust services.
- insurance and pension fund services including the provision of life insurance and annuities, nonlife insurance, reinsurance, freight insurance, pensions, standardised guarantees, and auxiliary services to insurance, pension schemes, and standardised guarantee schemes.

Other

Other refers to all other services not specified, including manufacturing services (e.g. outsourced portions of a manufacturing process or a complete outsourced manufacturing process. The value of the services in this division is based on the service paid, not the value of the goods manufactured), maintenance and repair services, tourism services not including international transport, construction, telecommunications, computer and information services, personal, cultural and recreational services, and government services not included elsewhere.

Reference:

The ABS bases its services definitions on the International Monetary Fund (IMF) (2009), *Balance of payments and international investment position manual — Sixth Edition (BPM6)*, Washington, D.C.: International Monetary Fund, 2009.

Appendix 2: Data Sources

Trade in goods

The calendar year value of exports and imports are obtained by aggregating up the corresponding monthly figures based on Balance of Payment statistics published by the ABS: *International Trade in Goods and Services, Australia, Apr 2012* (Cat. No. 5368.0).

For exports, the source data table is *Table 14a. MERCHANDISE EXPORTS, Country and Country Groups, FOB Value.*

For imports, the source data table is *Table 14b. MERCHANDISE IMPORTS, Country and Country Groups, Customs Value.*

The corresponding constant price figures were derived by using the annual average of quarterly implicit price deflators for goods exports and import published in *TABLE 112. GOODS AND SERVICES: IMPLICIT PRICE DEFLATORS – ORIGINAL (INDEX) – QUARTER, Balance of Payments and International Investment Position, Australia, March 2012* (ABS Cat. No. 5302.0).

Trade in services

The value of exports and imports in services are obtained from ABS publication *International Trade in Services by Country, by State and by Detailed Services Category, Calendar Year, 2011* (Cat. No. 5368.0.55.004).

For exports, the source data table is *Tables 6.1-6.11: International Trade in Services, Credits, Service by Calendar Year and by Country.*

For imports, the source data table is *Table 8.1-8.12: International Trade in Services, Debits, Service by Calendar Year and by Country.*

These data sources provide separate industry level figures for Manufacturing Services on Physical Inputs owned by Others, Maintenance and Repair services nie, Transport, Travel, Construction, Insurance and Pension Services, Financial Services, Charges for the use of, Intellectual Property, Telecommunication, Computer and Information Services, Other Business Services, Personal, Cultural and Recreation services, and Government Goods and Services nie Services Credits.

For Educational Travel, the source data tables are *Table 9.4: International Trade in Services, Credits, Calendar Year by Country & Travel – Education*, and *Table 10.4: International Trade in Services, Debits, Calendar Year by Country & Travel – Education.*

The corresponding constant price figures are derived using the implicit deflators obtained from the same table as in the case of trade in goods. Due to lack of industry level price indices for services trade, the industry level constant price figures are derived using the same total services trade implicit price deflators.

Comparison of ANZ Services Index Categories and ABS BPM6 Classification[44]

Education	**4. Travel Services[45]**
	4.2.2 Education related
Transport	**3. Transport Services**
	3.1 Passenger
	3.2 Freight
	3.3 Other
	3.4 Postal & courier services
Business	**8. Charges for the use of intellectual property not included elsewhere (nie)**
	8.1 Licences to reproduce and/ or distribute computer services
	8.1.2 Licences to reproduce and/ or distribute computer hardware & design services
	8.2 Licences to reproduce and/ or distribute audiovisual & related services
	8.3 Outcomes of research & development
	8.4 Franchise & trademarks licensing fees
	8.5 Other charges for the use of intellectual property
	8.5.1 Royalties on education services
	8.5.2 Royalities on telecommunication services
	8.5.3 Music
	8.5.4 Other
	10. Other business services
	10.1 Research & development services
	10.2 Professional & management consulting services
	10.2.1 Legal
	10.2.1.2 Accounting, auditing, bookkeeping & tax consulting services
	10.2.1.3 Business & management consulting & public relations services
	10.2.1.4 Other professional services
	10.2.1.5 Management fees nie
	10.2.2 Advertising, market research & public opinion polling
	10.3 Technical, trade-related & other business services
	10.3.1 Architectural, engineering, scientific & other technical services
	10.3.1.1 Architectural services
	10.3.1.2 Engineering services
	10.3.1.3 Surveying
	10.3.1.4 Scientific & other technical services
	10.3.2 Waste treatment & de-pollution, agricultural & mining services
	10.3.2.1 Waste treatment & de-pollution
	10.3.2.2 Services incidental to agriculture, forestry & fishing
	10.3.2.3 Services incidental to mining & oil & gas extraction
	10.3.2.4 Other on-site processing services
	10.3.3 Operational leasing services
	10.3.3.1 Air operational leasing services
	10.3.3.2 Sea operational leasing services
	10.3.3.3 Other operational leasing services
	10.3.4 Trade-related services
	10.3.5 Other business services nie

44 The International Monetary Fund's sixth edition of the Balance of Payments and International Investment Position Manual (BPM6, the Manual) serves as the standard framework for statistics on the transactions and positions between an economy and the rest of the world. The Australian Bureau of Statistics introduced the BPM6 in late 2009.

45 As mentioned previously, this definition includes the purchases of education-related goods and services such as tuition, food, accommodation, local transport, and health services by non-resident students, including those of their accompanying dependents. The international travel of non-resident students is not included in this category, but in Transport.

Comparison of ANZ Services Index Categories and ABS BPM6 Classification

Finance	**6. Insurance & pension services**
	6.1 Direct insurance
	6.1.1 Freight insurance
	6.1.2 Life insurance
	6.1.3 Other insurance
	6.2 Reinsurance
	6.3 Auxillary insurance
	6.4 Pension services
	6.5 Standardised guarantee services
	7. Financial Services
	7.1 Explicitly charged & other financial services
	7.2 FISIM (financial intermediation services charged indirectly measured)
Other	**1. Manufacturing services on physical inputs owned by others**
	2. Maintenance & repair nie
	4. Travel services4
	4.1 Business travel
	4.2 Personal travel
	4.2.3.2 Other personal travel
	5. Construction services
	9. Telcommunication, computer & information services
	9.1 Telecommunication services
	9.1.1 Telephone services
	9.1.2 Other telecommunication services
	9.2.1 Computer services
	9.2.1.1 Hardware & software consultancy
	9.2.1.2 Data processing
	9.2.2 Information services
	9.2.2.1 Database services
	9.2.2.2 Newsagency subscription services
	9.2.3 Other computer & information services
	11. Personal, cultural & recreation services
	11.1 Audiovisual & related services
	11.1.1 Royalties on film, television, home entertainment & other audiovisual
	11.1.1.1 Film royalties
	11.1.1.2 Television royalties
	11.1.1.3 Home entertainment royalties
	11.1.1.4 Other audiovisual royalties
	11.1.2 Audiovisual services nie
	11.2 Other personal, cultural & recreational services
	11.2.1 Health services
	11.2.2 Education services
	11.2.2.1 Education consultancy
	11.2.2.2 Correspondence courses
	11.2.2.3 Services through educational institutions
	12. Government goods & services nie
	12.1 Embassies & consulates
	12.1.1 Missions expenditure
	12.1.2 Employees expenditure
	12.2 Military units & agencies
	12.3 Other

Appendix 3: Mode of Delivery and Data Coverage

The World Trade Organization's (WTO) General Agreement on Trade in Services (GATS) defined four modes of services delivery, namely:

- Cross-border trade (Mode 1). This is a mode of service supply where services are supplied from the location of one country into the location of the consumer. An example is architectural design services, supplied, by an architect in one country by post or electronic mail to consumers in another country.
- Consumption abroad (Mode 2). A mode of service supply where services are supplied in the territory of the producer to the consumers of another country. This mode of supply requires that the consumer of services move abroad. An example is the travelling abroad to receive: medical treatment or to enrol in an education program.
- Commercial presence (Mode 3). A mode of service supply or trade where services are supplied through a business or professional establishment that has re-located to be near the consumer, i.e. foreign direct investment, of one member of the agreement in the territory of another. An example is the establishment of a branch of a foreign bank or of a franchising outlet in a foreign location.
- Temporary movement of natural persons (Mode 4). A mode of service supply where services are supplied by nationals of one country moving to the consumers' country. This mode includes both independent service providers as well as employees of the services providers of another country. Examples include consultants, teachers and actors of one country supplying services through their physical presence in the consumers' country, or the managers of a multinational enterprise.

By definition, the ABS services trade statistics based on Balance of Payments used in this report do not cover transactions under Mode 3. This implies possible understatement of the roles of certain industries which involved more of Mode 3 transactions, such as Financial Services, and overstatement of those which did not, such as Transport and Travel. Unfortunately, there is little information available to characterize such bias for the case of Australia. For the world as a whole, the share of each individual mode in the value of services trade has been roughly estimated at:[46]

- Mode 1 : ~ 35 per cent
- Mode 2 : ~ 10 – 15 per cent
- Mode 3 : ~ 50 per cent
- Mode 4 : ~ 1 – 2 per cent

46 See Magdeleine, J. and Maurer, A. (2008), "Measuring GATS Mode 4 Trade Flows", Staff Working Paper ERSD-2008-05, World Trade Organization, Economic Research and Statistics Division.

Appendix 4: Data Tables

Appendix Table 1: Total value of Australia's trade in goods and services by partner regions, $bn, 2007-08 prices[47]

													Growth rate (%)		
Component	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2010-11**	**2008-11**	**2000-11**
Exports + Imports															
Asia 16															
Goods	133.56	133.62	140.98	145.60	166.06	184.53	197.14	209.37	232.23	220.55	235.27	245.89	4.51	5.88	84.10
Services	23.10	25.35	24.98	24.37	27.64	29.72	31.02	34.54	39.45	37.90	40.17	41.52	3.37	5.24	79.76
Total	156.66	158.97	165.96	169.97	193.70	214.25	228.16	243.91	271.68	258.45	275.44	287.41	4.35	5.79	83.46
ROW															
Goods	124.56	125.22	134.14	138.95	143.36	142.92	146.82	157.82	161.76	151.75	152.21	154.11	1.24	-4.73	23.72
Services	49.59	45.50	45.74	48.08	51.69	53.10	56.24	62.85	66.88	63.80	68.43	70.92	3.65	6.05	43.02
Total	174.15	170.71	179.87	187.03	195.05	196.02	203.06	220.66	228.64	215.55	220.64	225.03	1.99	-1.58	29.22
Exports															
Asia 16															
Goods	88.64	89.34	89.65	86.81	96.12	105.84	108.08	110.95	122.83	125.02	128.75	131.90	2.44	7.38	48.80
Services	14.36	16.18	16.09	15.55	16.65	17.86	18.58	20.01	22.12	22.39	21.82	20.35	-6.73	-7.99	41.74
Total	103.00	105.52	105.74	102.36	112.78	123.70	126.66	130.96	144.96	147.41	150.58	152.25	1.11	5.03	47.81
ROW															
Goods	66.69	71.04	72.82	72.15	69.32	64.11	65.12	66.11	60.61	60.03	56.98	55.50	-2.60	-8.44	-16.78
Services	26.44	24.74	24.62	24.68	24.96	25.23	27.62	29.75	29.60	27.78	26.92	25.57	-5.02	-13.61	-3.29
Total	93.13	95.78	97.44	96.83	94.27	89.34	92.73	95.86	90.21	87.81	83.90	81.07	-3.38	-10.13	-12.95
Imports															
Asia 16															
Goods	44.92	44.28	51.32	58.79	69.93	78.69	89.06	98.43	109.39	95.53	106.52	114.00	7.02	4.21	153.77
Services	8.74	9.17	8.90	8.82	10.99	11.86	12.44	14.53	17.33	15.51	18.34	21.16	15.38	22.13	142.24
Total	53.66	53.45	60.22	67.61	80.92	90.55	101.50	112.95	126.72	111.04	124.86	135.16	8.25	6.66	151.89
ROW															
Goods	57.87	54.18	61.32	66.80	74.05	78.81	81.70	91.71	101.15	91.72	95.23	98.61	3.54	-2.51	70.40
Services	23.15	20.75	21.12	23.40	26.73	27.87	28.63	33.09	37.28	36.02	41.51	45.35	9.27	21.65	95.90
Total	81.02	74.93	82.44	90.20	100.77	106.68	110.33	124.81	138.43	127.74	136.74	143.96	5.28	3.99	77.69

47 All data in this Index reflect ABS revisions of the corresponding values of trade as of to June 2012. Hence, there might be discrepancies between the values reported in this Index and those reported in the 2010 edition of the Index.

Appendix Table 2: Total value of Australia's trade in services by partner countries & regions, $bn, 2007-08 prices

													Growth rate (%)		
Partner	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2010-11**	**2008-11**	**2000-11**
Export + Import															
China	1.68	2.17	2.63	3.00	3.90	4.47	4.54	5.32	6.18	6.58	7.29	7.20	-1.22	16.50	329.59
India	0.77	0.85	0.75	0.86	1.17	1.64	1.97	2.57	3.61	4.14	3.61	2.78	-23.02	-22.93	260.26
Indonesia	2.03	2.17	1.99	1.74	2.01	1.81	1.40	1.65	2.09	2.53	3.11	3.71	19.02	77.12	82.38
Japan	5.73	5.66	5.18	4.89	5.23	5.19	4.86	4.52	4.68	4.00	4.33	4.13	-4.52	-11.74	-27.91
Korea	1.20	1.57	1.42	1.60	1.57	1.78	2.11	2.38	2.38	2.04	2.40	2.15	-10.33	-9.42	78.66
ASEAN6	9.83	10.32	10.38	9.72	11.03	11.77	12.63	14.52	16.78	15.34	16.21	18.72	15.43	11.54	90.37
CLMV	0.53	0.58	0.61	0.61	0.72	0.79	0.86	1.14	1.45	1.61	1.89	1.98	4.88	36.52	276.33
ROW	52.95	49.71	49.76	51.77	55.71	57.18	60.29	66.93	71.25	67.99	72.86	75.48	3.59	5.93	42.56
Export															
China	0.97	1.50	1.82	2.17	2.80	3.27	3.48	4.04	4.69	5.17	5.52	5.18	-6.11	10.49	433.52
India	0.56	0.68	0.56	0.66	0.90	1.32	1.60	2.09	2.95	3.50	2.92	1.96	-32.76	-33.46	251.23
Indonesia	1.30	1.38	1.25	1.16	1.05	0.95	0.90	0.95	1.02	1.14	1.17	1.16	-0.51	13.89	-10.88
Japan	4.05	3.94	3.83	3.34	3.48	3.35	3.17	2.72	2.31	1.94	1.95	1.77	-9.48	-23.43	-56.44
Korea	0.93	1.26	1.14	1.20	1.26	1.45	1.72	1.90	1.81	1.73	1.80	1.57	-12.58	-13.46	68.47
ASEAN6	5.56	6.03	6.04	5.64	5.64	5.92	6.02	6.60	7.59	6.98	6.55	6.87	4.91	-9.48	23.65
CLMV	0.26	0.33	0.31	0.30	0.30	0.33	0.38	0.51	0.70	0.91	1.00	0.94	-6.14	34.82	255.55
ROW	28.46	27.19	27.01	26.92	27.23	27.46	29.83	31.91	31.67	29.93	29.01	27.64	-4.75	-12.75	-2.91
Import															
China	0.71	0.68	0.81	0.82	1.10	1.20	1.06	1.28	1.49	1.41	1.77	2.02	13.99	35.41	186.50
India	0.21	0.17	0.19	0.21	0.27	0.32	0.37	0.48	0.66	0.64	0.69	0.82	17.96	24.13	283.92
Indonesia	0.73	0.79	0.74	0.59	0.96	0.86	0.49	0.70	1.07	1.38	1.95	2.55	30.72	137.19	248.99
Japan	1.68	1.72	1.36	1.54	1.75	1.84	1.70	1.80	2.38	2.05	2.38	2.37	-0.45	-0.40	40.96
Korea	0.27	0.31	0.27	0.40	0.31	0.33	0.39	0.48	0.56	0.31	0.60	0.58	-3.63	3.63	113.51
ASEAN6	4.27	4.28	4.34	4.09	5.39	5.85	6.61	7.92	9.19	8.36	9.66	11.84	22.55	28.91	177.10
CLMV	0.26	0.25	0.30	0.31	0.42	0.46	0.48	0.63	0.75	0.70	0.89	1.04	17.29	38.09	297.25
ROW	24.48	22.51	22.75	24.85	28.47	29.72	30.45	35.02	39.58	38.06	43.85	47.84	9.11	20.88	95.43

Appendix Table 3: Total value of Australia's trade in services by partner regions and industry, $bn, 2007-08 prices

													Growth rate (%)		
Component	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2010-11**	**2008-11**	**2000-11**
Exports + Imports															
Asia 16															
Business Services	1.62	1.99	2.10	2.27	2.23	2.40	2.70	3.05	3.57	3.88	3.50	3.80	8.77	6.61	134.17
Educational Travel	3.79	4.90	5.22	6.08	6.97	7.63	8.14	9.21	10.96	12.47	12.07	10.15	-15.90	-7.41	168.07
Finance and Insurance	0.44	0.44	0.44	0.42	0.42	0.52	0.57	0.56	0.56	0.53	0.53	0.64	21.36	15.61	44.73
Transport	7.80	7.89	7.43	7.02	8.22	8.97	9.67	10.16	11.81	7.97	9.26	10.35	11.75	-12.40	32.60
Other	9.44	10.14	9.80	8.58	9.80	10.20	9.95	11.57	12.55	13.04	14.81	16.58	11.90	32.04	75.61
Total	23.10	25.35	24.98	24.37	27.64	29.72	31.02	34.54	39.45	37.90	40.17	41.52	3.37	5.24	79.76
ROW															
Business Services	8.16	8.26	8.60	9.00	9.12	9.61	10.72	13.70	15.94	14.88	16.05	16.59	3.32	4.07	103.15
Educational Travel	1.67	2.21	2.33	2.60	2.83	2.98	3.39	3.94	4.73	5.29	5.22	4.74	-9.06	0.33	184.06
Finance and Insurance	3.46	2.99	2.86	2.83	2.92	3.27	4.23	4.71	3.22	2.24	2.04	2.60	27.26	-19.26	-24.82
Transport	11.74	11.10	10.85	11.53	12.59	12.85	12.69	13.22	13.28	11.13	12.48	12.47	-0.07	-6.07	6.24
Other	24.56	20.94	21.10	22.13	24.23	24.40	25.21	27.27	29.72	30.24	32.63	34.52	5.78	16.17	40.57
Total	49.59	45.50	45.74	48.08	51.69	53.10	56.24	62.85	66.88	63.80	68.43	70.92	3.65	6.05	43.02

Appendix Table 4: Total value of Australia's exports and imports in services by partner regions and industry, $bn, 2007-08 prices

													Growth rate (%)		
Component	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2010-11**	**2008-11**	**2000-11**
Exports															
Asia 16															
Business Services	0.85	1.16	1.24	1.33	1.35	1.49	1.71	1.70	1.84	1.89	1.66	1.90	14.56	3.01	124.36
Educational Travel	3.58	4.65	5.03	5.86	6.74	7.37	7.89	8.96	10.64	12.18	11.70	9.80	-16.24	-7.95	173.92
Finance and Insurance	0.29	0.31	0.30	0.26	0.24	0.30	0.33	0.33	0.36	0.40	0.35	0.46	32.49	27.45	59.97
Transport	3.59	3.66	3.30	2.71	2.94	3.10	3.25	3.19	3.74	2.28	2.20	2.18	-1.35	-41.79	-39.40
Other	6.06	6.40	6.22	5.39	5.39	5.60	5.40	5.84	5.54	5.63	5.92	6.02	1.78	8.75	-0.61
Total	14.36	16.18	16.09	15.55	16.65	17.86	18.58	20.01	22.12	22.39	21.82	20.35	-6.73	-7.99	41.74
ROW															
Business Services	4.10	3.99	4.13	4.11	4.26	4.43	5.22	6.26	6.78	5.83	6.07	5.50	-9.29	-18.88	34.28
Educational Travel	1.32	1.84	1.97	2.17	2.38	2.53	2.89	3.41	4.19	4.79	4.61	4.07	-11.79	-3.00	209.40
Finance and Insurance	1.95	1.76	1.70	1.55	1.63	1.86	2.69	2.88	1.65	1.07	0.88	1.15	30.97	-30.31	-40.91
Transport	5.13	5.32	5.04	5.07	4.85	4.81	4.81	4.82	4.65	3.90	3.74	3.55	-5.07	-23.59	-30.82
Other	13.94	11.84	11.78	11.78	11.85	11.60	12.02	12.38	12.32	12.19	11.62	11.29	-2.81	-8.31	-19.00
Total	26.44	24.74	24.62	24.68	24.96	25.23	27.62	29.75	29.60	27.78	26.92	25.57	-5.02	-13.61	-3.29
Imports															
Asia 16															
Business Services	0.78	0.83	0.85	0.94	0.88	0.91	0.99	1.35	1.73	1.99	1.84	1.91	3.55	10.45	144.83
Educational Travel	0.21	0.24	0.19	0.22	0.23	0.26	0.24	0.24	0.32	0.29	0.37	0.35	-5.08	10.68	68.00
Finance and Insurance	0.16	0.13	0.15	0.16	0.19	0.22	0.24	0.23	0.19	0.14	0.18	0.18	-0.01	-6.49	16.48
Transport	4.21	4.23	4.12	4.31	5.28	5.87	6.42	6.97	8.08	5.69	7.05	8.17	15.84	1.19	93.93
Other	3.38	3.74	3.58	3.19	4.41	4.60	4.54	5.73	7.02	7.41	8.90	10.55	18.64	50.42	212.28
Total	8.74	9.17	8.90	8.82	10.99	11.86	12.44	14.53	17.33	15.51	18.34	21.16	15.38	22.13	142.24
ROW															
Business Services	4.07	4.27	4.47	4.89	4.86	5.17	5.50	7.45	9.15	9.05	9.98	11.08	10.98	21.09	172.60
Educational Travel	0.35	0.37	0.36	0.44	0.45	0.44	0.50	0.53	0.53	0.50	0.60	0.67	11.88	26.53	90.08
Finance and Insurance	1.51	1.23	1.16	1.27	1.29	1.41	1.55	1.83	1.57	1.17	1.16	1.45	24.46	-7.59	-4.00
Transport	6.61	5.78	5.81	6.46	7.74	8.04	7.89	8.40	8.63	7.23	8.74	8.92	2.07	3.37	35.02
Other	10.62	9.10	9.33	10.35	12.38	12.80	13.19	14.88	17.40	18.06	21.01	23.23	10.53	33.50	118.81
Total	23.15	20.75	21.12	23.40	26.73	27.87	28.63	33.09	37.28	36.02	41.51	45.35	9.27	21.65	95.90

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