

Services Competitiveness

2011 APEC Conference and Lecture

James Bond

President, Australian Services Roundtable
Chief Economist, Financial Services Council

17 November 2011

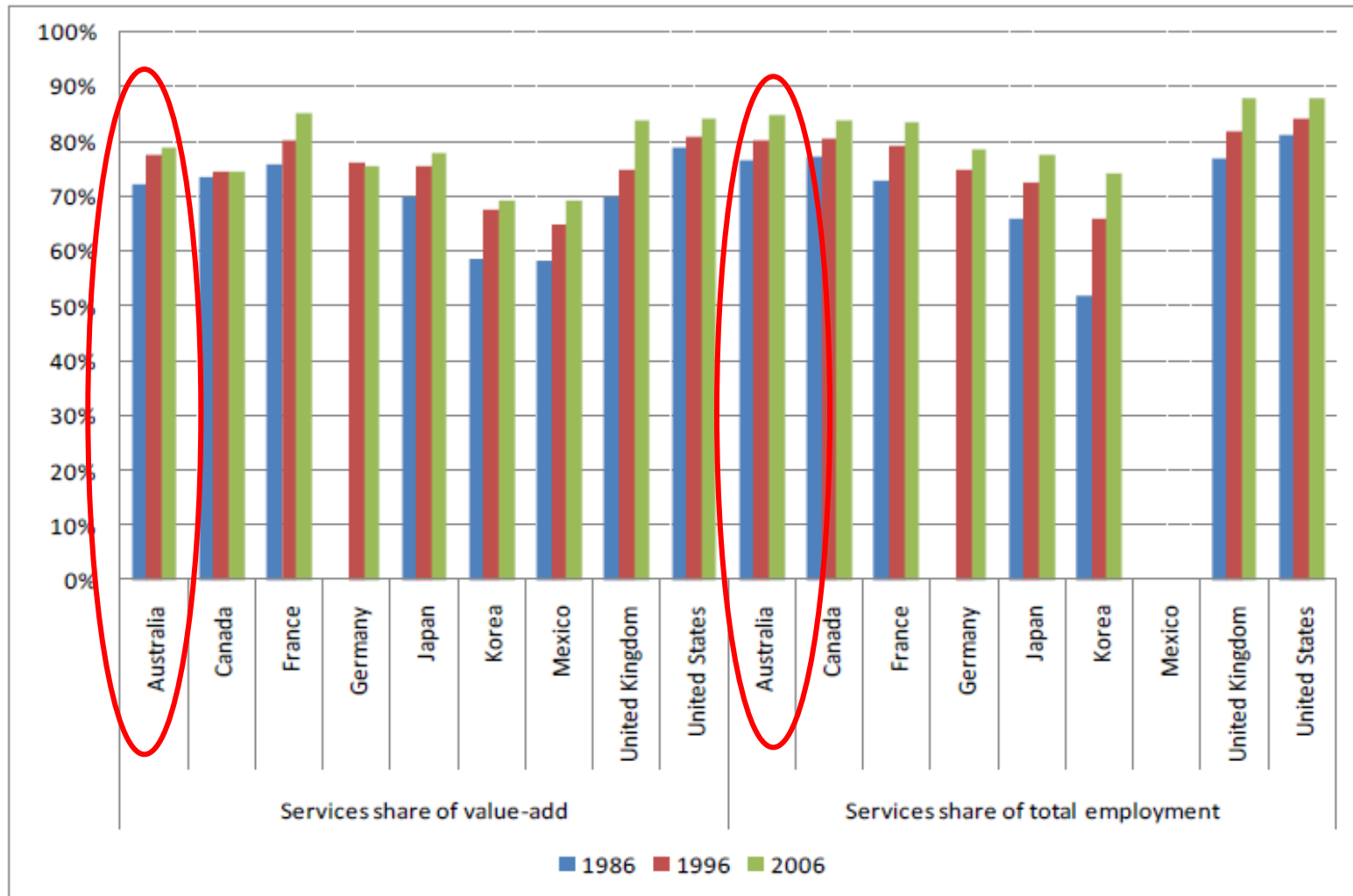


Australian
Services
Roundtable



FINANCIAL
SERVICES
COUNCIL

Reality: Services contributions to employment and GDP



Perception: Revenge of the Physiocrats

“ . . .to animate and extend the cultivation of the land, whose produce is the most real and certain wealth of a state . . .” Francios Quesnay (18th century)

“I don’t want to be Prime Minister of a country that doesn’t make things”.

Former Australian Prime Minister Kevin Rudd (2006)

Australians believe that the mining sector accounts for 35 per cent of GDP, when it actually accounts for just 9.2 per cent of GDP. (Australia Institute, 2011)



François Quesnay (1694–1774)
Founder of the Physiocratic School.

Measuring services: Trade in services

Impacts of poor data:

- Businesses lack an understanding of the opportunities;
- Economists lack data to demonstrate the benefits of further services regulatory reform and trade liberalisation;
- Trade agencies lack data to support and improve their trade facilitation activities;
- Education institutions and related planning on future skill needs is constrained; and
- Policy and regulatory reform needed to raise competitiveness lacks champions.

Trade and productivity

- Unilateral trade liberalisation drives productivity growth.
- Around half the increases in Australian productivity from the mid-1980s over the following decade were due to increased trade openness.

How do services firms engage internationally?

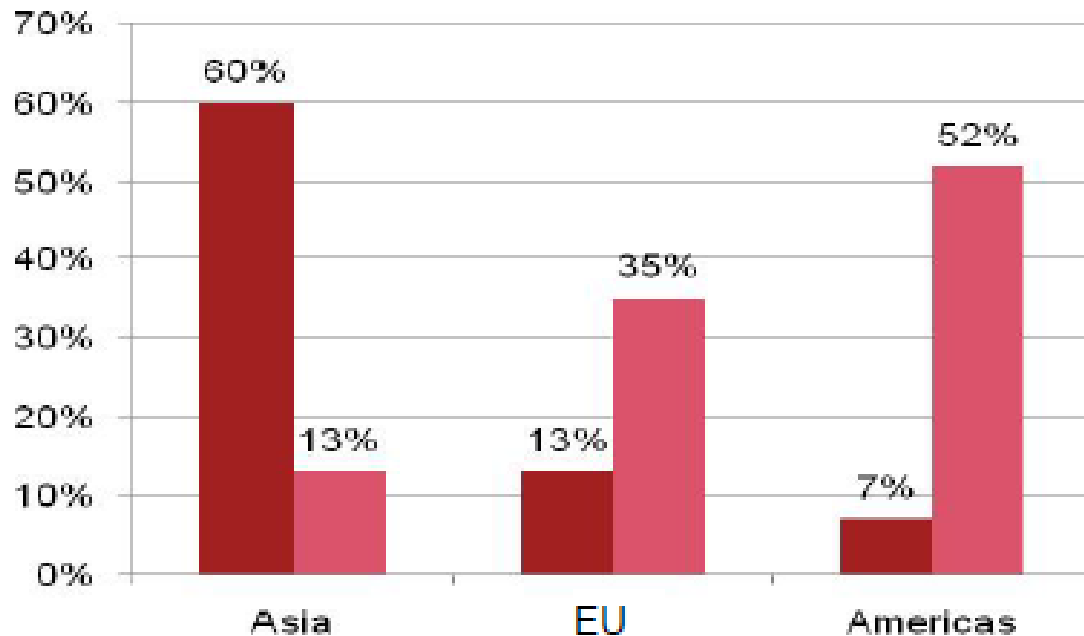
- Cross-border supply of services; eg digital services capable of being delivered via the internet
- Cross-border movement of services provider or services client
- Commercial presence/investment in the target market
- Most services firms, in all services sectors, increasingly use a flexible combination of all these ways of engaging
- Growth of cross-border digital intra and inter firm trade has enabled development of services supply chains, and national centers of expertise

A practical example: *Asia Region Funds Passport*

- The European UCITs system allows financial products developed in one country to be sold in all other European countries.
- There is no equivalent UCITS regime in Asia.
- Limited, inconsistent and inefficient regulatory regimes for recognition of foreign funds.
- Despite this, a high proportion of funds offered in Asia are domiciled outside the region:
 - Hong Kong 91%
 - Singapore 79%
 - Taiwan 59%
- Over the past three years approximately 40% of all new sales into UCITS funds have been sourced from Asia.
- Patchwork of Mutual Recognition Agreements.

Asia Region Funds Passport

- Low mutual fund penetration: USD2.757 trillion, 13% of global FUM
- GDP growth/share: USD16,652 billion today, USD24,591 billion by 2015
- Low pension system coverage (less than 10%)



% of the world total ■ Population ■ FUM

Asia Region Funds Passport

- The common set of passport regulations would need cover a wide range of issues, including:
 - Eligible investment asset classes;
 - Custody arrangements;
 - Offer document conditions;
 - Fund registration arrangements;
 - Licensing arrangements for the provider;
 - Any limits on leverage;
 - Any liquidity requirements; and
 - Investor protection and dispute resolution procedures.

Asia Region Funds Passport: Benefits

- Lower the barriers to entry for Asian based fund managers wanting to offer funds in the region.
- Grow the regional managed funds market – size, capability, employment, etc.
- Drive innovation and productivity in financial services in all countries participating.
- Improve the level of choice and competition for all consumers in the region.
- Reduce operating costs for fund managers in the region and hence prices for consumers of financial services.
- Lower the cost of capital within the region.

Next Steps: APEC

APEC 2011 Finance Ministers Communique:

“We also recognized the role of ABAC and the private sector in supporting finance officials’ exploration of the concept of an Asia Region Funds Passport (ARFP) in order to develop the sound funds industry and better integrate financial markets with due regard for investor protection. We expect further development of this work, in consideration of economies’ level of market development, which could help explore the establishment of a pilot ARFP.”

jbond@fsc.org.au

0423394533

International business engagement

There are strong spillovers from foreign investment into the domestic service economy:

- Economic literature on investment is focused on manufacturing and export related investment.

There are concerns in developed and developing countries that services trade liberalisation leads to job losses:

- The evidence is that the dominant effect is a rise in productivity; and
- This economic impact is much like technological change.

Most services jobs are domestic – and cannot be ‘taken by foreigners’:

- Domestic productivity however can be substantially raised through international engagement, through adoption of new business models, technologies and absorbing new skills.

Factors underlying growth in services productivity

Information and Communications Technology.

Specialisation, outsourcing, privatisation, disintermediation, supply chain, interoperability, performance based standards, deregulation:

- Post-Chandlerian firm;
- Move of services into the market economy; and
- Growth of financial services.

Innovation

- Increased application of economies of scale and customisation processes;
- Self service/ better understanding the client interface; and
- Application of research, including social science, humanities and arts as well as science and technology.

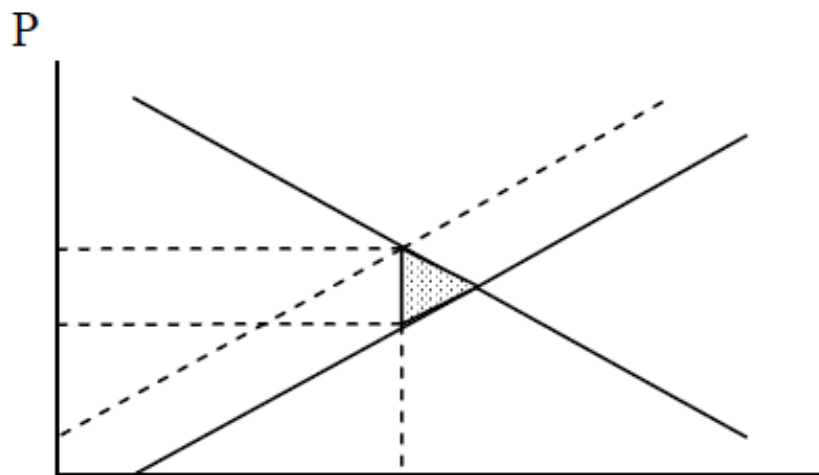
Knowledge-intensity:

- Increased value of knowledge; and
- Increased share of workforce in professional and managerial occupations.

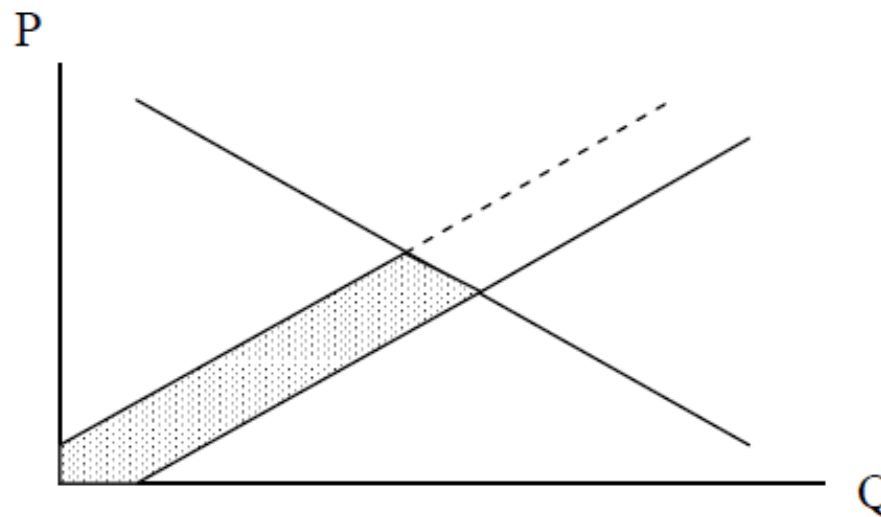
Policies for a New Economy: Productivity Innovation and Trade in Services – The international Conference on the Service Sector Advancement

Differential economic impact of reducing trade barriers: Services trade barriers are mainly cost escalating

Panel A: Rent-creating non-tariff barriers



Panel B: Cost-escalating non-tariff barriers



Service Innovation

Has been under estimated and under valued, in many instances can respond to similar approach as applied in traditional sectors:

- Increased application of economy of scale and customisation processes;
- Self service/ better understanding the client interface; and
- Application of research, including social science, humanities and arts as well as science and technology.

Application of markets and marketing techniques to traditional services:

- Development of Service Science.