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South Australia – North Atlantic Engagement Strategy – Stakeholder Consultation Workshop

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seek LIGHT

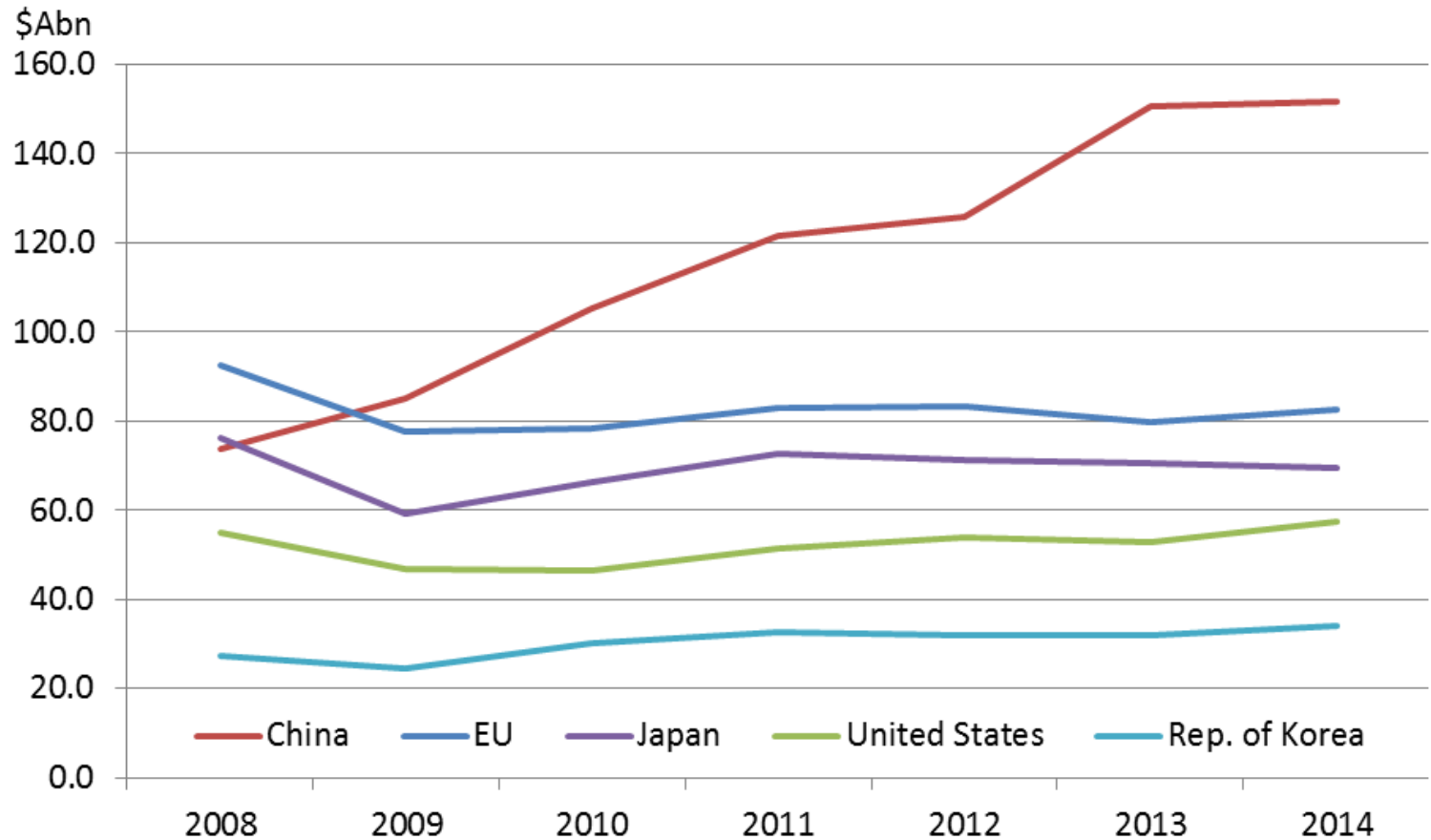
28 Members of EU

- Austria
 - Belgium
 - Bulgaria
 - Croatia
 - Cyprus
 - Czech Republic
 - Denmark
 - Estonia
 - Finland
 - France
 - Germany
 - Greece
 - Hungary
 - Republic of Ireland
 - Italy
 - Latvia
 - Lithuania
 - Luxembourg
 - Malta
 - Netherlands
 - Poland
 - Portugal
 - Romania
 - Slovakia
 - Slovenia
 - Spain
 - Sweden
 - United Kingdom
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The EU as a Trade and Investment Partner

- The EU is Australia's 2nd largest overall trading partner (13%)
 - Trade in goods
 - Australia's 5th largest export market, after China, Japan, Korea and US
 - Australia's 2nd largest import source, after China
 - Trade in services
 - Australia's top export market, followed by US
 - Australia's top import source, followed by US
 - Australia's dominant Foreign Direct Investment partner (25%)
 - Australia's top source of inward FDI, followed by US
 - 2nd largest destination for Australia's outward FDI, after US
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Australia's Total Trade in Goods and Services by Top 5 Partners



Source: Australian Bureau of Statistics

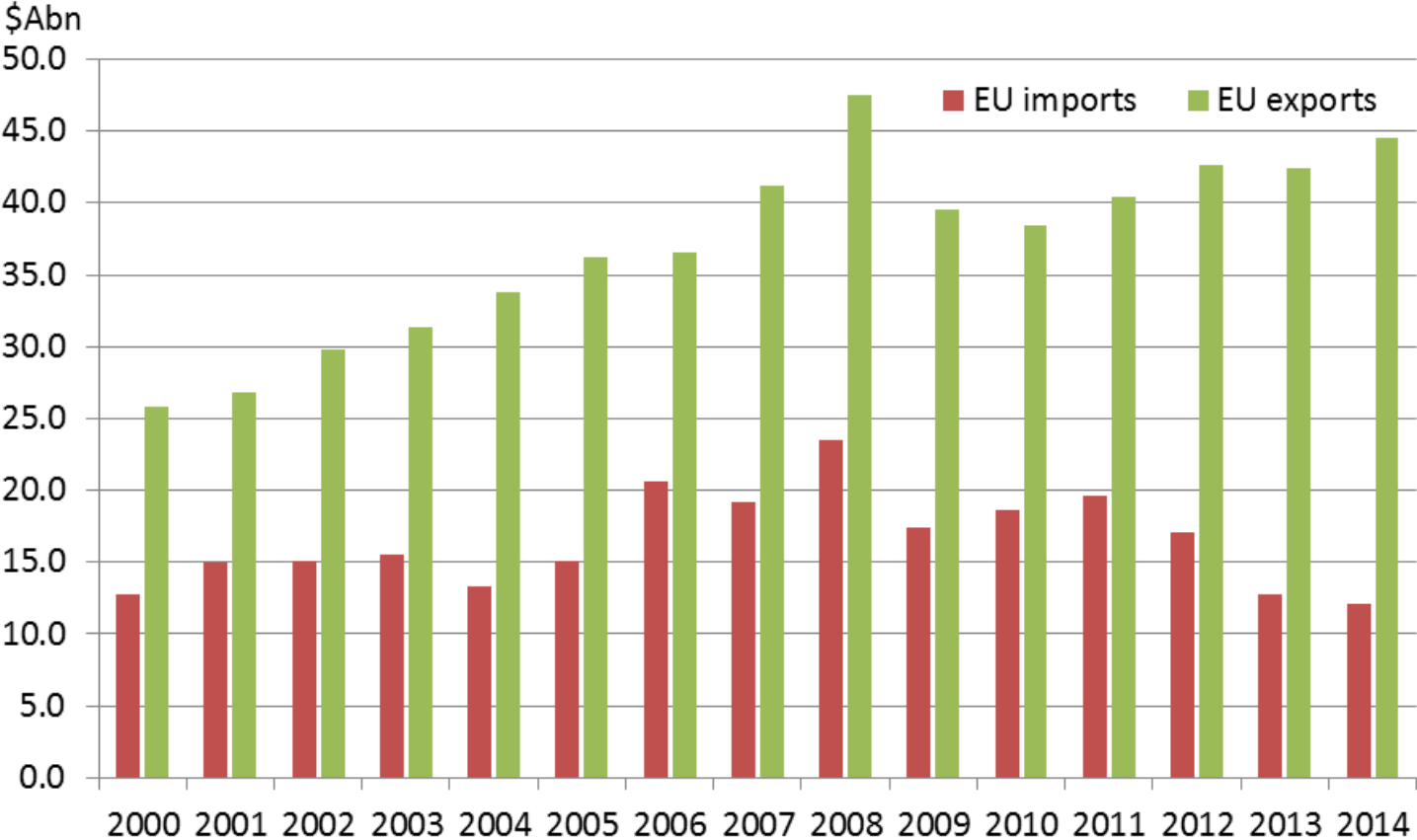
The EU member states as trade partners

- **United Kingdom**
 - 7th largest trade partner with 3.2% of Australia's total trade in goods and services (-1.2% 5 year trend growth)
 - 8th largest export market (2.7% of total, -6.5% growth)
 - 8th largest import source (3.7% of total, 3.3% growth)
- **Germany**
 - 11th largest trade partner with 2.5% of total trade (3.1% growth)
 - 6th largest import source (4.1% of total, 3.3% growth)
- **Italy**
 - 12th largest import source (2.1% of total, 5.2% growth)
- **France**
 - 13th largest import source (1.8% of total, -2.1% growth)

Australia as a Trade and Investment Partner

- Australia is the EU's 20th largest trading partner
- EU's principal export destinations, 2014
 - 1 United States 18%
 - 2 China 9.6%
 - 3 Switzerland 8.2%
 - *15 Australia 1.7%*
- EU's principal import sources, 2014
 - 1 China 17.8%
 - 2 United States 12%
 - 3 Russia 10%
 - *34 Australia 0.5%*

EU Merchandise Trade with Australia

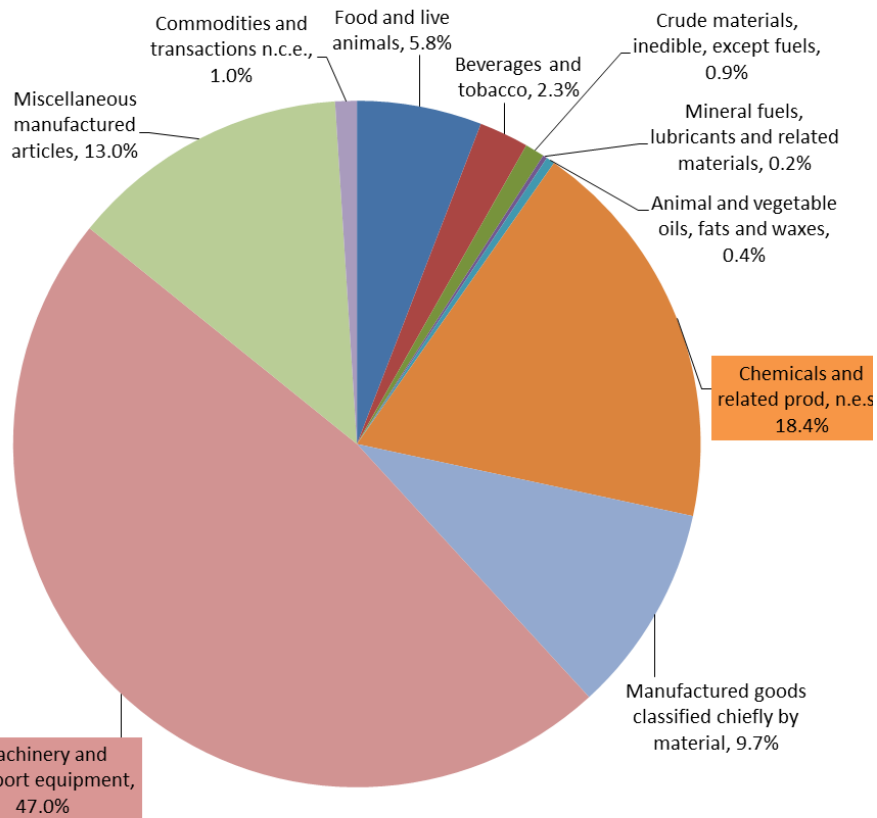


Annual average growth (2010-2014): EU imports -7.3% EU exports: 2.3%

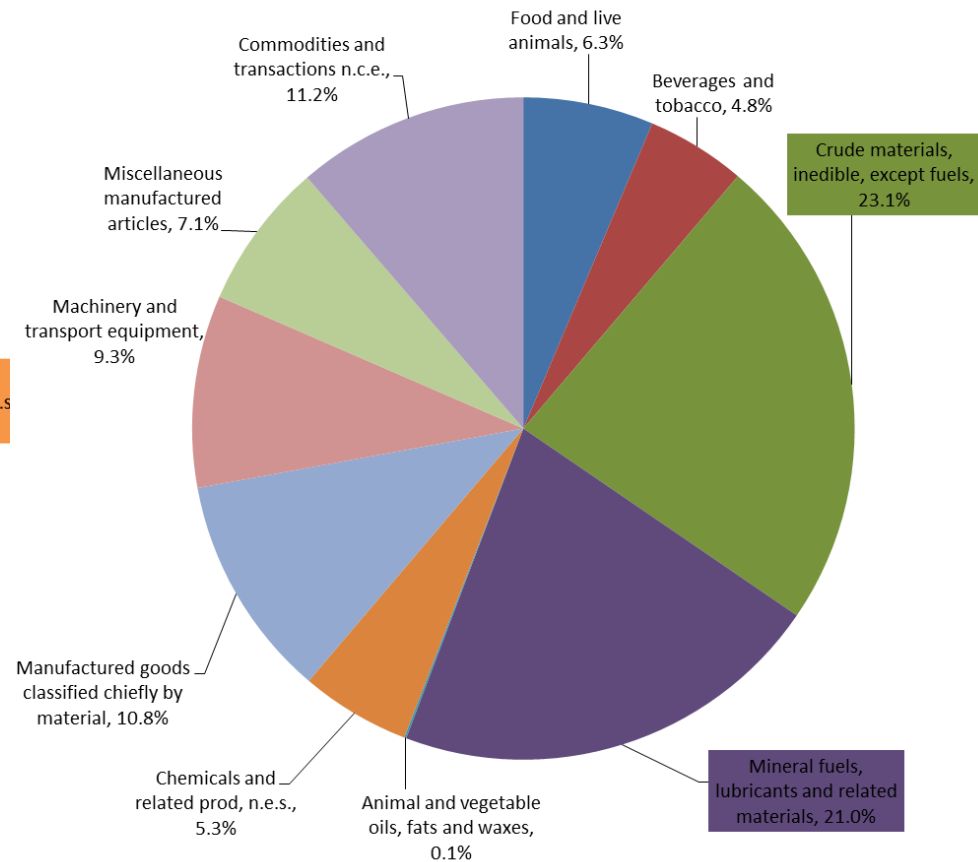
Source: Australian Bureau of Statistics

EU merchandise trade with Australia (2014)

Exports: 29.6 bn €



Imports: 9.2 bn €



Source: Eurostat (Comext)

Australia as a Trade and Investment Partner

- EU's principal FDI destinations, 2012
 - 1 United States 24.6%
 - 2 Brazil 8.7%
 - 3 Norway 7.6%
 - **8 Australia 4.5%**

(South Australia is the 5th largest state recipient of total Australian FDI and the number of projects are low relative to the state's population share of the population.)

- EU member state sources of EU FDI into Australia
 - **1 United Kingdom, 2 Germany, 3 France, 4 Netherlands**
- Top 10 sectors:
 - 1. Business services**
 - 2. Software and IT services**
 - 3. Financial services**
 4. Textiles
 5. Industrial machinery
 6. Food and tobacco
 7. Communications
 8. Transport
 9. Consumer products
 10. Oil and gas

Source: Department of Foreign Affairs and Trade

The rise of services

- In 2013, total bilateral trade in goods was €42b. In 2012, total bilateral trade in commercial services was €27b ie more than 1/3 of total bilateral trade, which is more than services' average of 25% share in global trade.
 - Total bilateral trade in services with the EU has grown on average with over 9% per year over the last decade.
 - This increasing importance of services stems from the rise of knowledge-based activities, the growing importance of intangible assets in all economies, together with the development of the internet, and the enhanced interplay between services and the manufacturing and agricultural sectors.
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EU as a services trade and investment partner

- The EU is by far the biggest exporter (580b € in 2011) and importer (470b €) of services in the world.
 - The EU is also the world biggest investor in services sectors, with more than 60% of its outward FDI going into services sectors (2 trillion € out of 3.6 trillion € of extra EU FDI stocks in 2009)
 - EU services exports to Australia include transport and travel, but other business services, financial services and computer services exports also have increased significantly in recent years.
 - Australia's exports of services to the EU include tourism, professional technical and other business services.
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Business Services export destinations

Table 1: Australia's top business service destinations 2006-07, A\$ million

Economy	Exports 2006-07	Share of Total (percent)	Imports 2006-07	Share of Total (percent)
United States	3072	28.2	4251	38.3
United Kingdom	1039	9.5	1101	9.9
Singapore	819	7.5	325	2.9
New Zealand	729	6.7	361	3.3
Japan	340	3.1	174	1.6
Hong Kong	303	2.8	339	3.1
China	177	1.6	104	0.94
Total	10891	100.0	11087	100.0

Source: Calculated from ABS, 5368055003, November 2007.

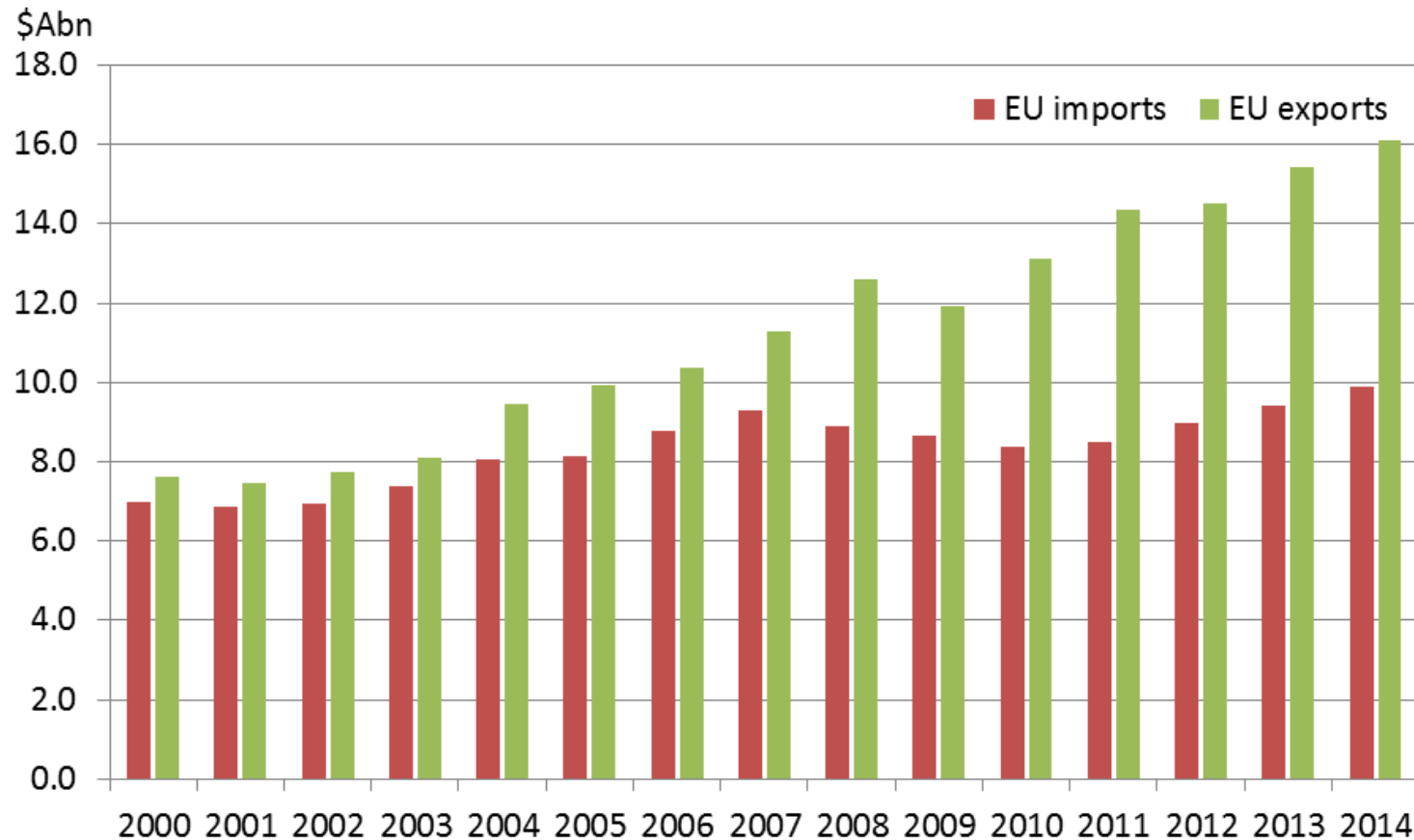
The number of firms, and exports per firm, of Australian business services exporters is growing faster than for goods exporters....

Table 1: Australia's fastest growing business service destinations 1999-00 – 2006-07 (A\$)

Economy	Growth rate exports, percent	Growth rate of imports, percent
Taiwan	23.6*	n.a.
Switzerland	18.1	11.8
India	15.8*	27.5
Ireland	15.8*	n.a.
Italy	14.3	2.8
Singapore	13.0	4.5
Malaysia	10.0	22.0
Hong Kong	9.4	2.7
<i>ASEAN</i>	8.6	1.2
All destinations	4.2	1.6

Source: Calculated from ABS, 5368055003, November 2007.

EU Trade in Services with Australia



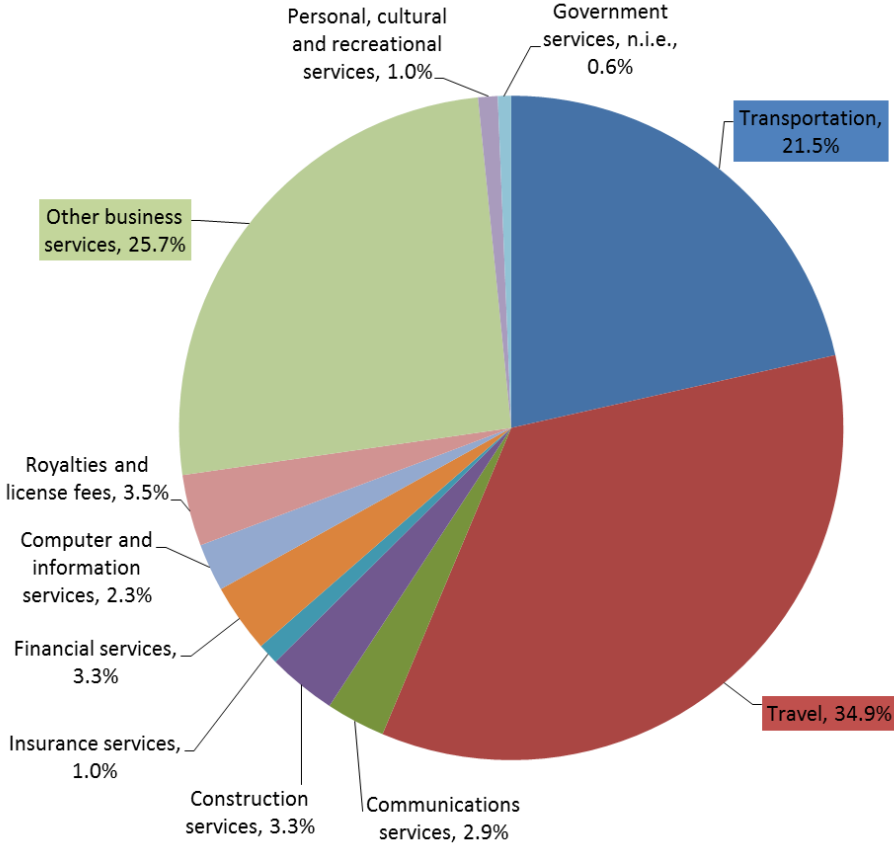
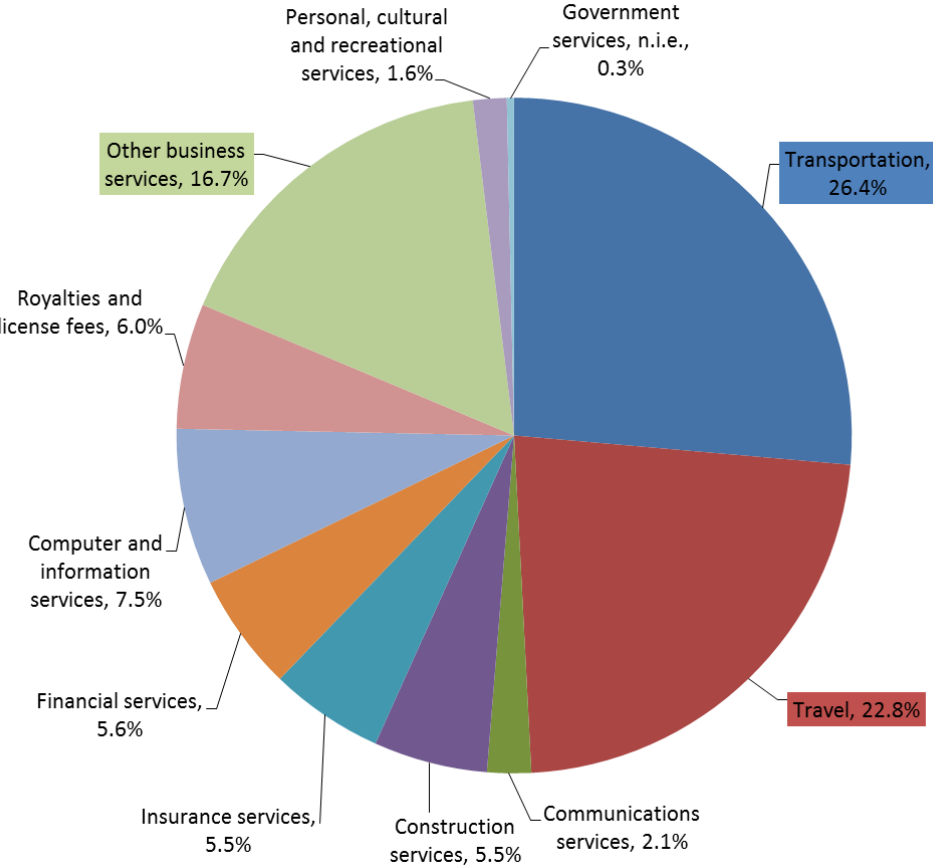
Annual average growth (2010-2014): EU imports 3.2% EU exports: 8.6%

Source: Australian Bureau of Statistics

EU services trade with Australia (2012)

Exports: 19.0 bn €

Imports: 8.1 bn €

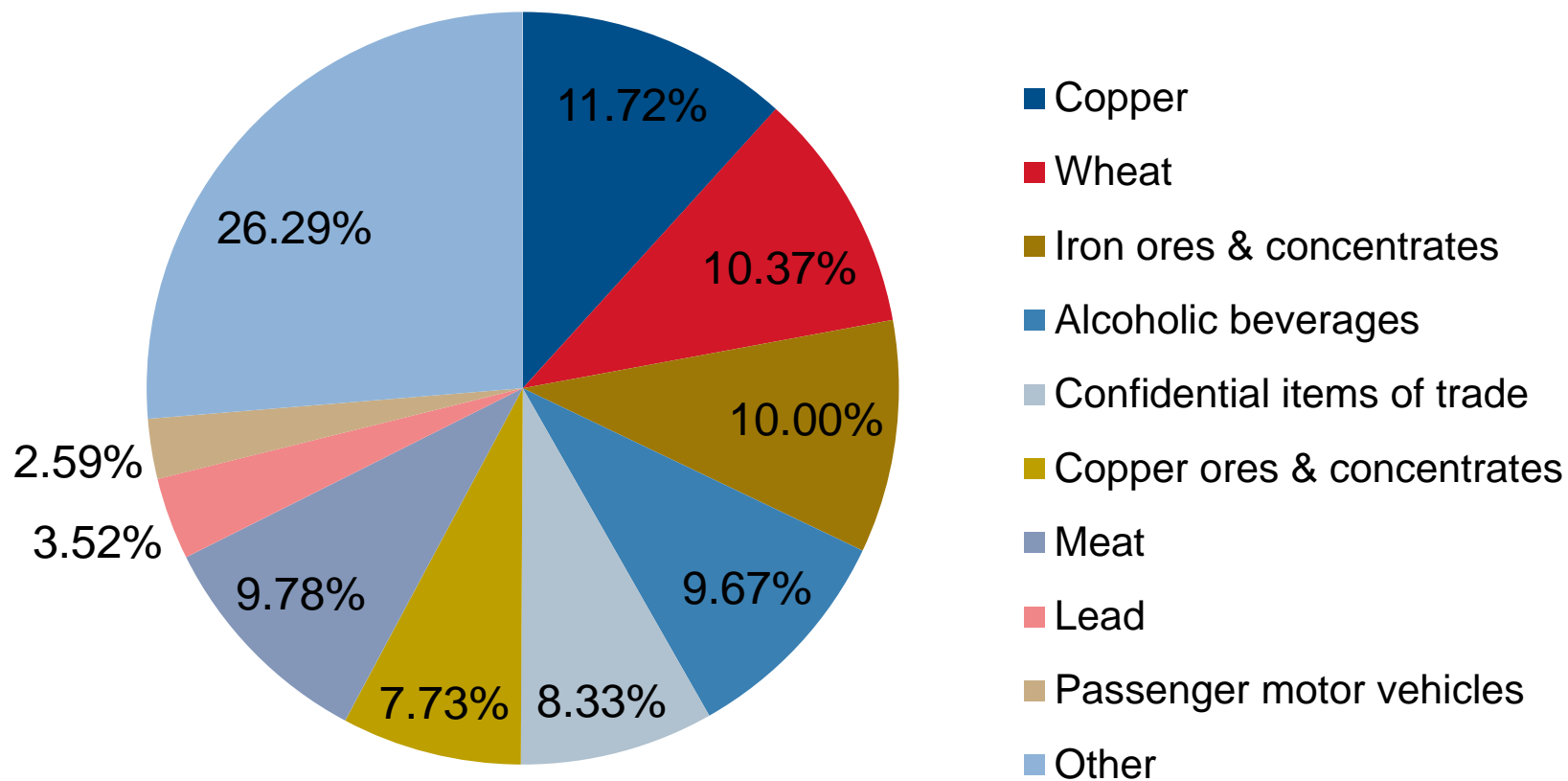


Source: Eurostat (Comext)

EU member states as a trade partners of South Australia

- South Australia's share of total Australian exports to the EU increased from 5.2% in 2008-09 to 9.4% in 2013-14
 - **United Kingdom**
 - 7th largest export market and accounts for 3.75% of total South Australia's goods export (62,9% - Alcoholic beverages)
 - 9th largest import source (2.7% of total)
 - **Germany**
 - 7th largest import source (3.5% of total)
 - **France**
 - 8th largest import source (2.9% of total)
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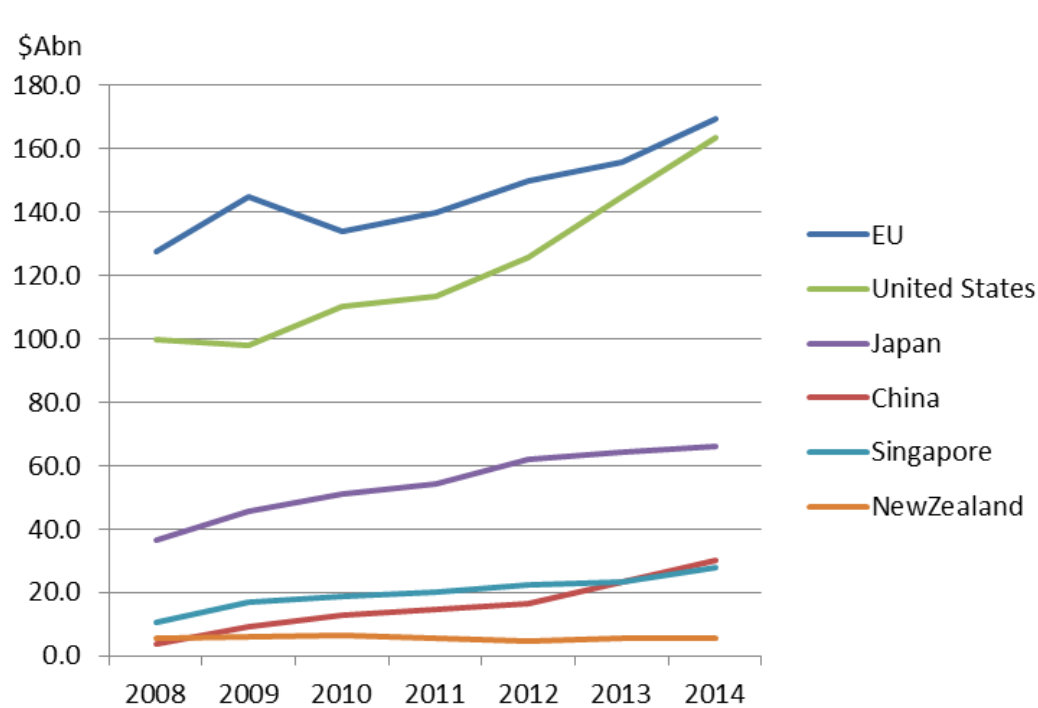
Structure of total SA goods exports (2014)



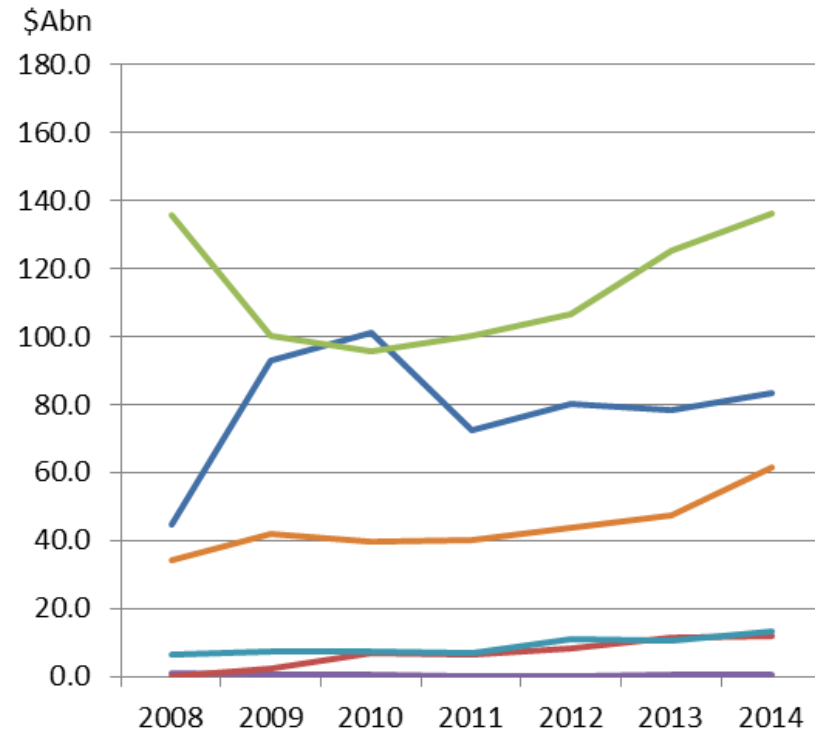
Source: Department of Foreign Affairs and Trade

Foreign Direct Investment (FDI) Stocks

Direct investment in Australia



Australian direct investment abroad



Source: Australian Bureau of Statistics

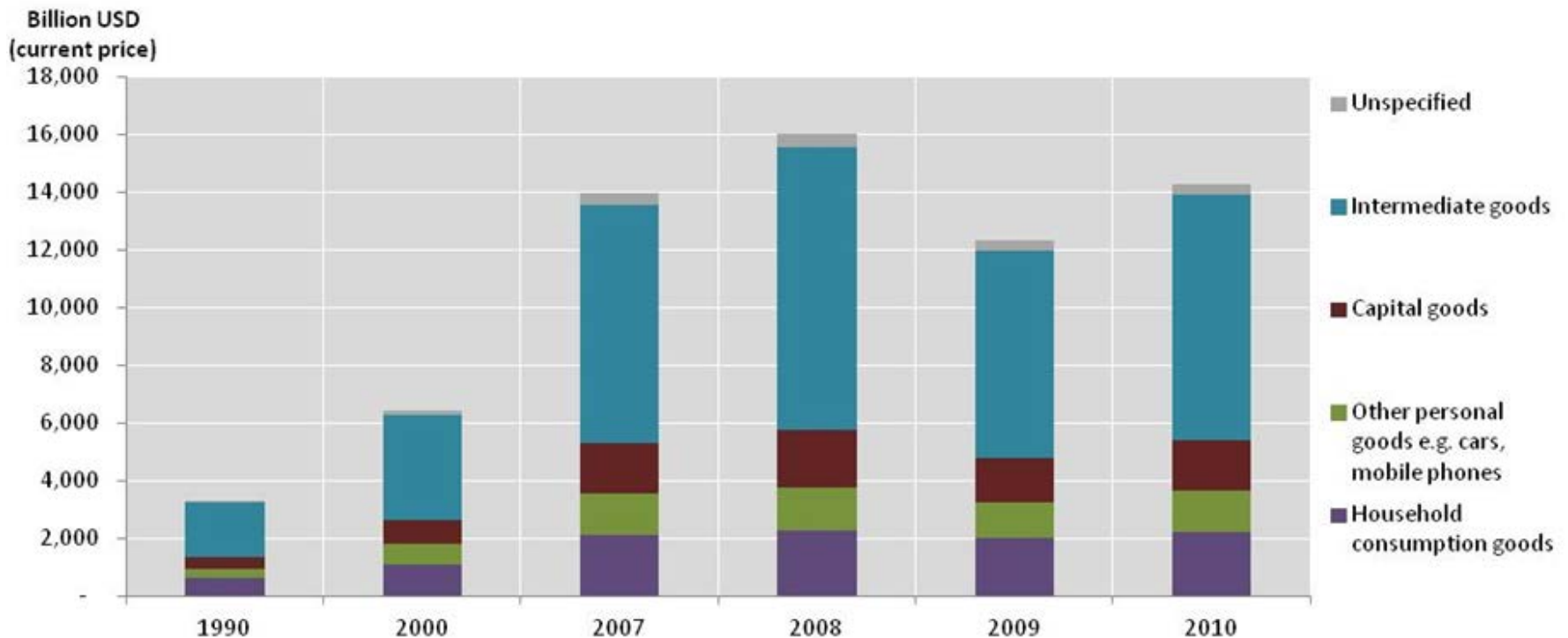
Trade relations

- Bilateral trade relations have been dominated in the political arena by sensitivities in agriculture trade, including in the context of the World Trade Organisation
 - Australia is one of the few countries that does not have a bilateral trade agreement with the EU and the absence of an FTA is clearly an anomaly, given the parties' like-mindedness not only in cultural, but also economic terms
 - The EU and Australia have conducted commercial relations under the EU-Australia Partnership Framework agreed in 2008
 - In mid 2015 Australia and the EU completed negotiations of the new **Cooperation Framework** which will be signed by both parties in the first quarter of this year
 - On 15 November 2015 , the President of the European Commission Jean-Claude Juncker, the President of the European Council Donald Tusk and the Prime Minister of Australia announced the launch of negotiations for an **FTA between the EU and Australia**.
 - **Agriculture will remain sensitive.**
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**So lets focus for a moment on participation
in global value chains – and on the role of
services and investment.....**

B2B trade in intermediates

(is twice as important as trade in final products (and has been for a long time))



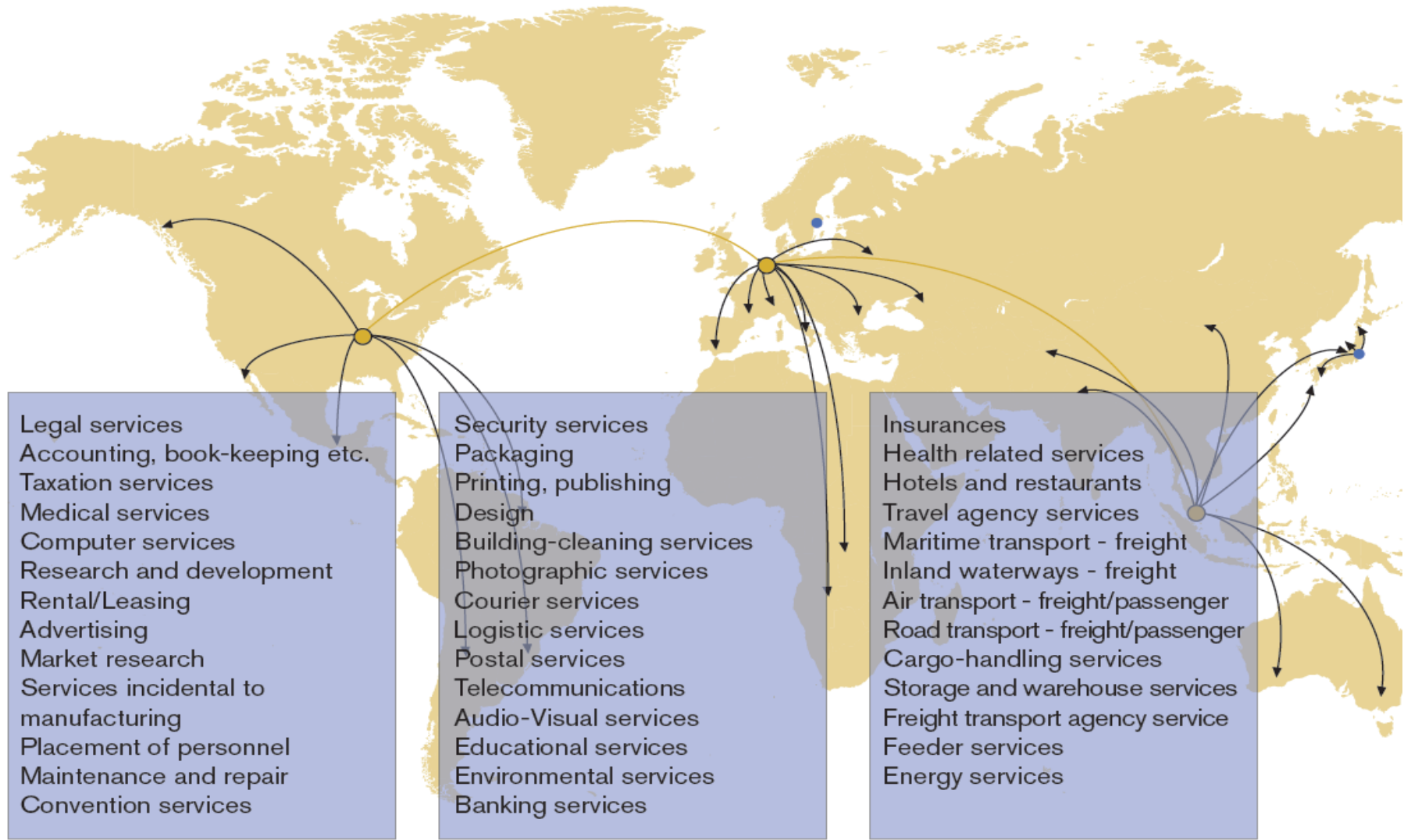
World Trade by End Use 1990-2010

Source: OECD, 2011 (export flow)

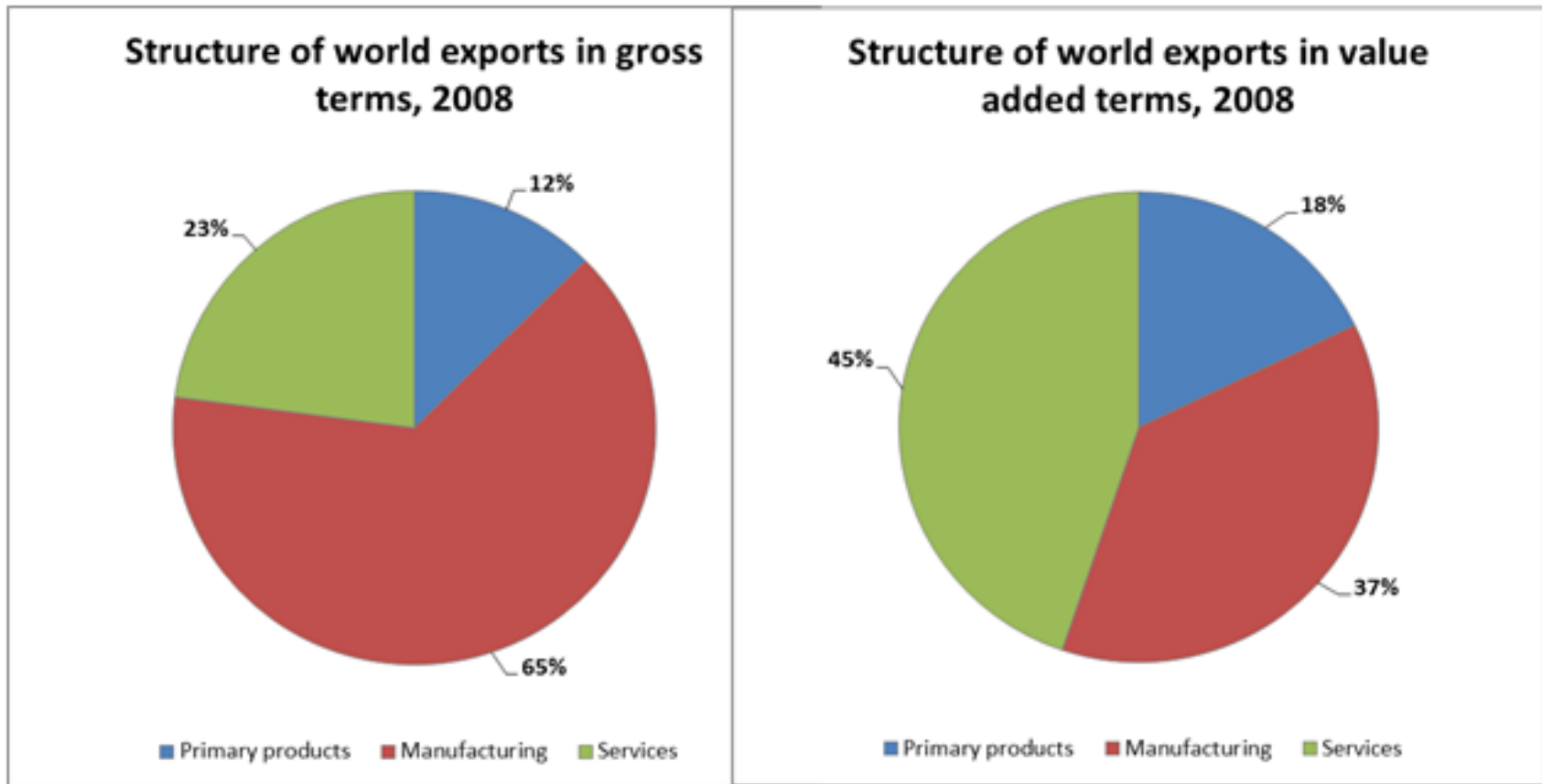
Swedish National Board of Trade : “servicification”

The example of Sandvik - Heavy Tools Manufacturer

Picture 1: Services needed for effective supply chain and delivery of goods



Services importance



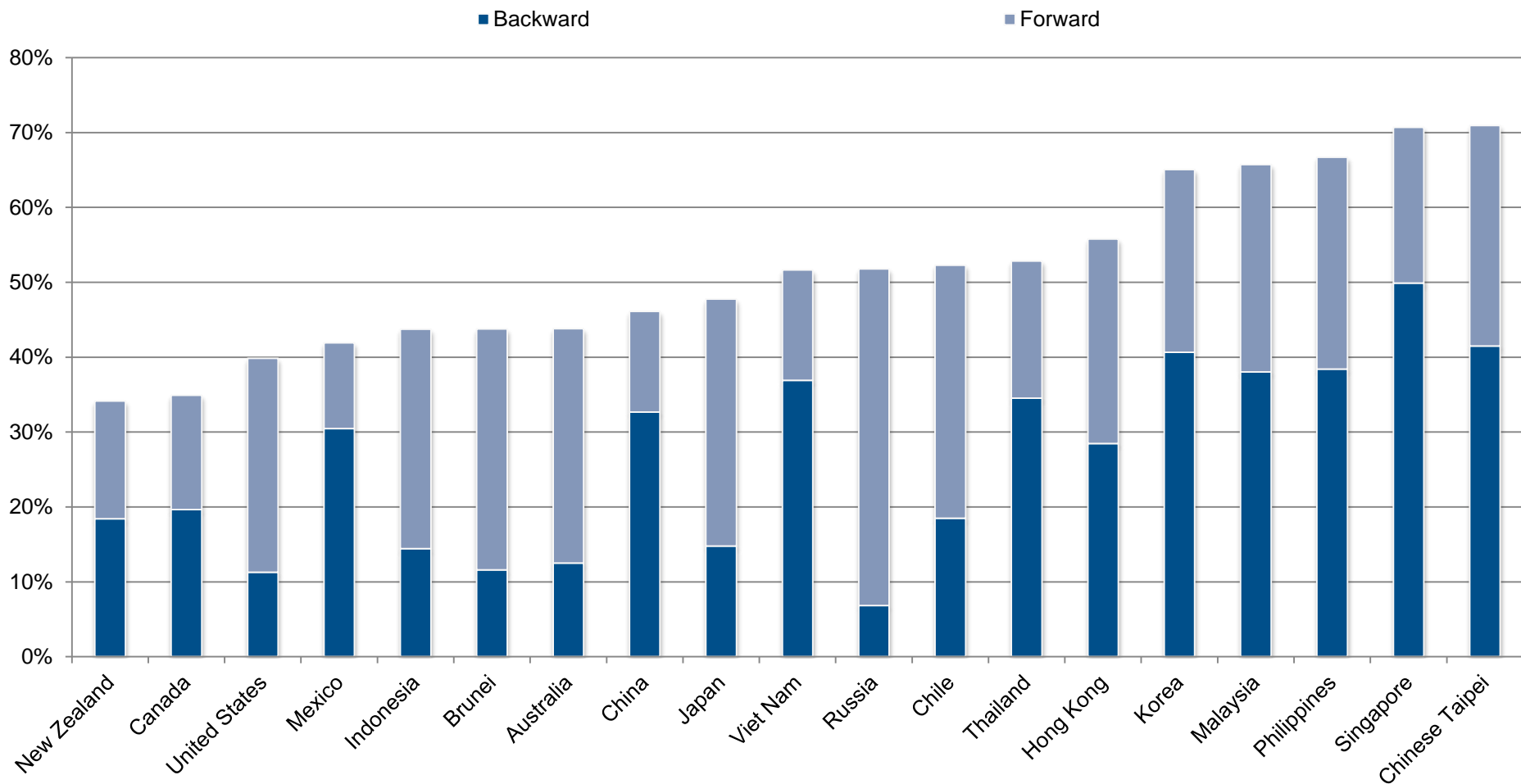
Source: Escaith (2013)

In 2008, services were nearly half of world trade in value added

Australia: persistent difficulty accessing and participating in global value chains.

- Perhaps unsurprisingly, given the geographic remoteness and the dominance of mining exports, the share of domestic value added in Australian exports is over 87 %, well above the OECD average of 76 % (and the ASEAN 8 average of 70 % and 67 % for China).
 - This share has seen no more than a trivial drop over 15 years.
 - The OECD computes an overall “GVC Participation Index” based on the percentage of a country’s total exports which are engaged in GVC activity.
 - The index is broken down into “backward” participation ie imported inputs and “forward” participation ie the exports are destined as inputs into other countries’ exports.
 - Australia’s index is relatively low, at just over 40 %, with 2/3 of exports of intermediates destined for further processing offshore ie the limited participation in GVCs tends to be “forward”.
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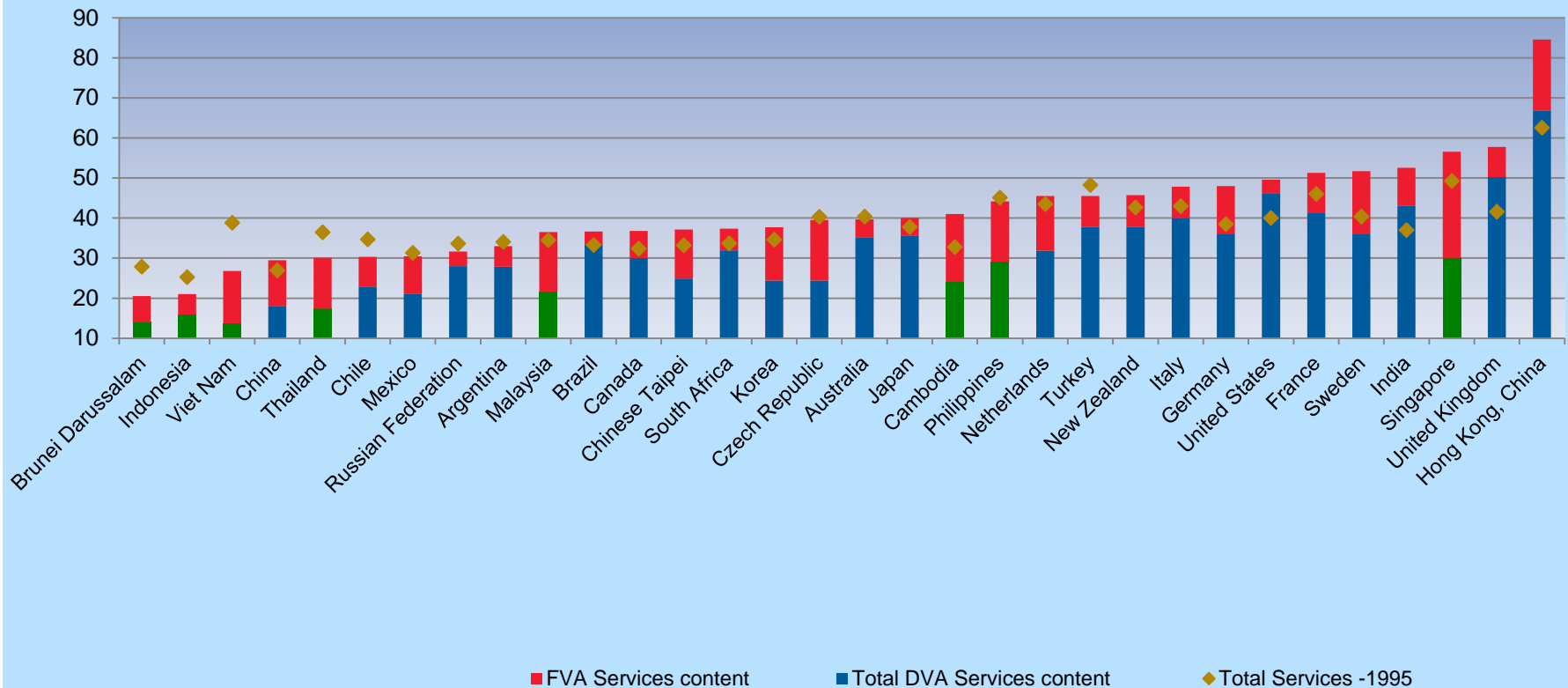
GVC Participation Rate as % of gross exports, 2009



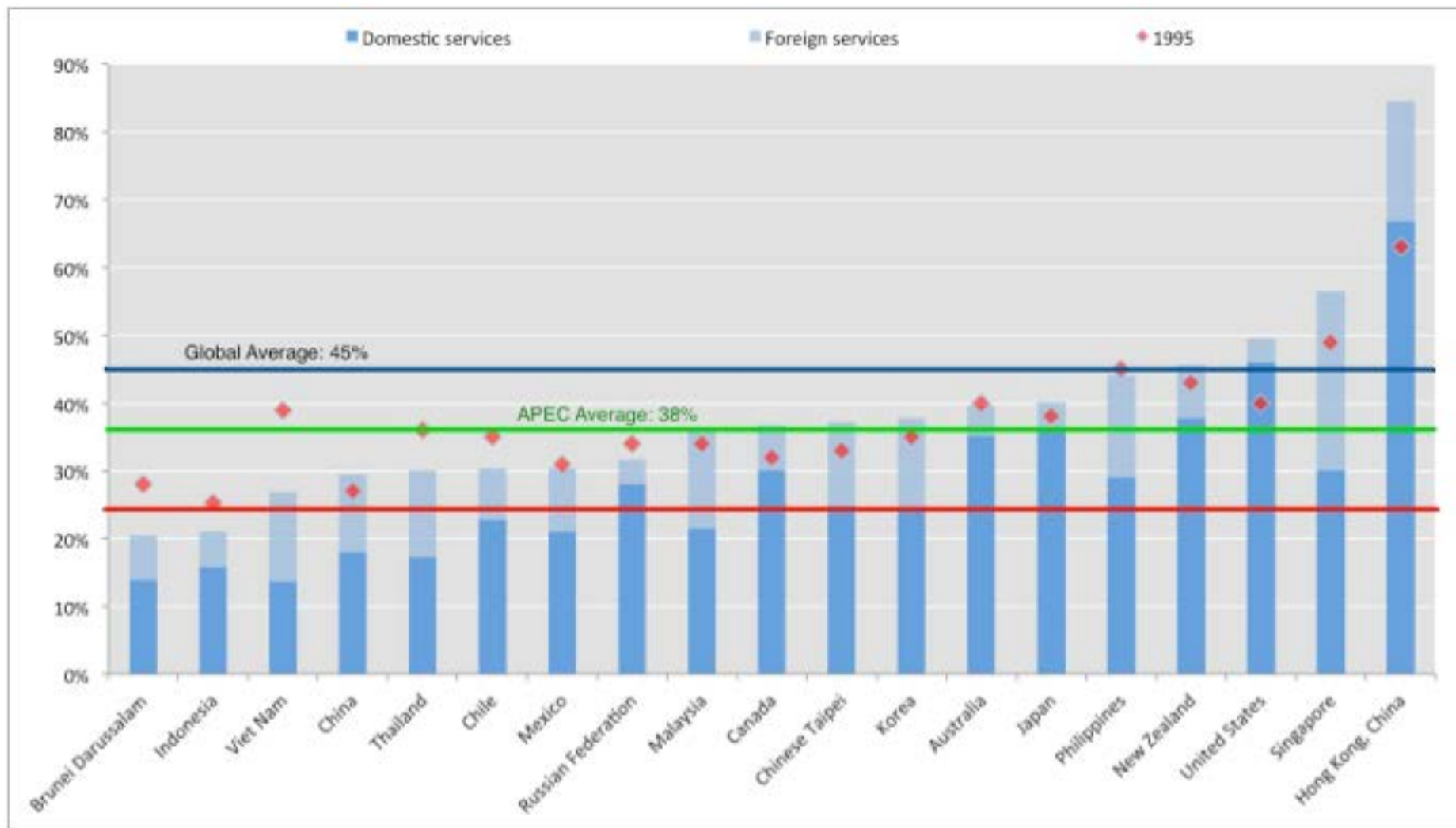
Australia; is the story any better for services?

For Australia, the services content of exports has actually declined marginally over the last 15 years to just under 40%. This is 10 percentage points below the OECD average.

Services content as % of Gross Exports, by country, 2009

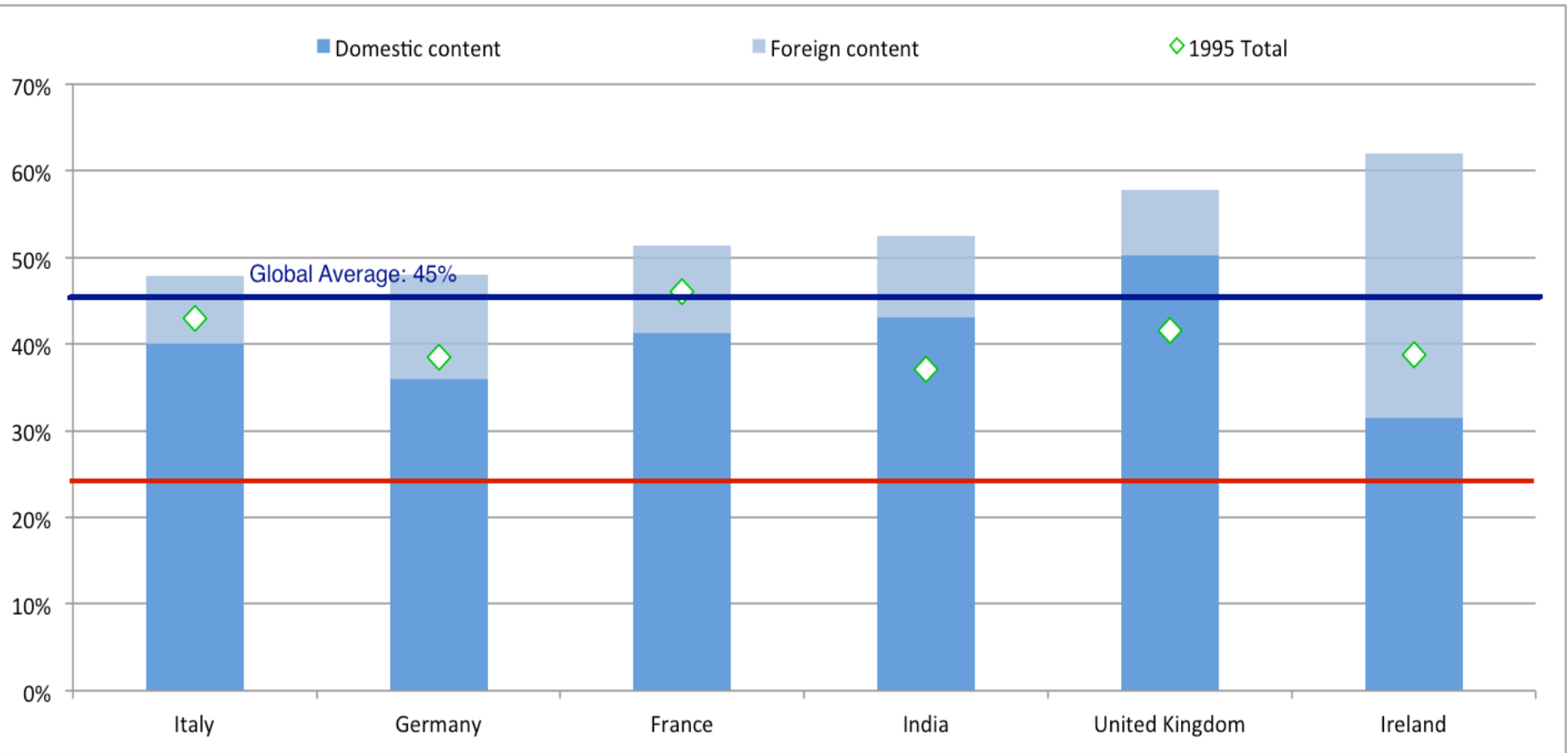


Services Content in APEC Exports trebles

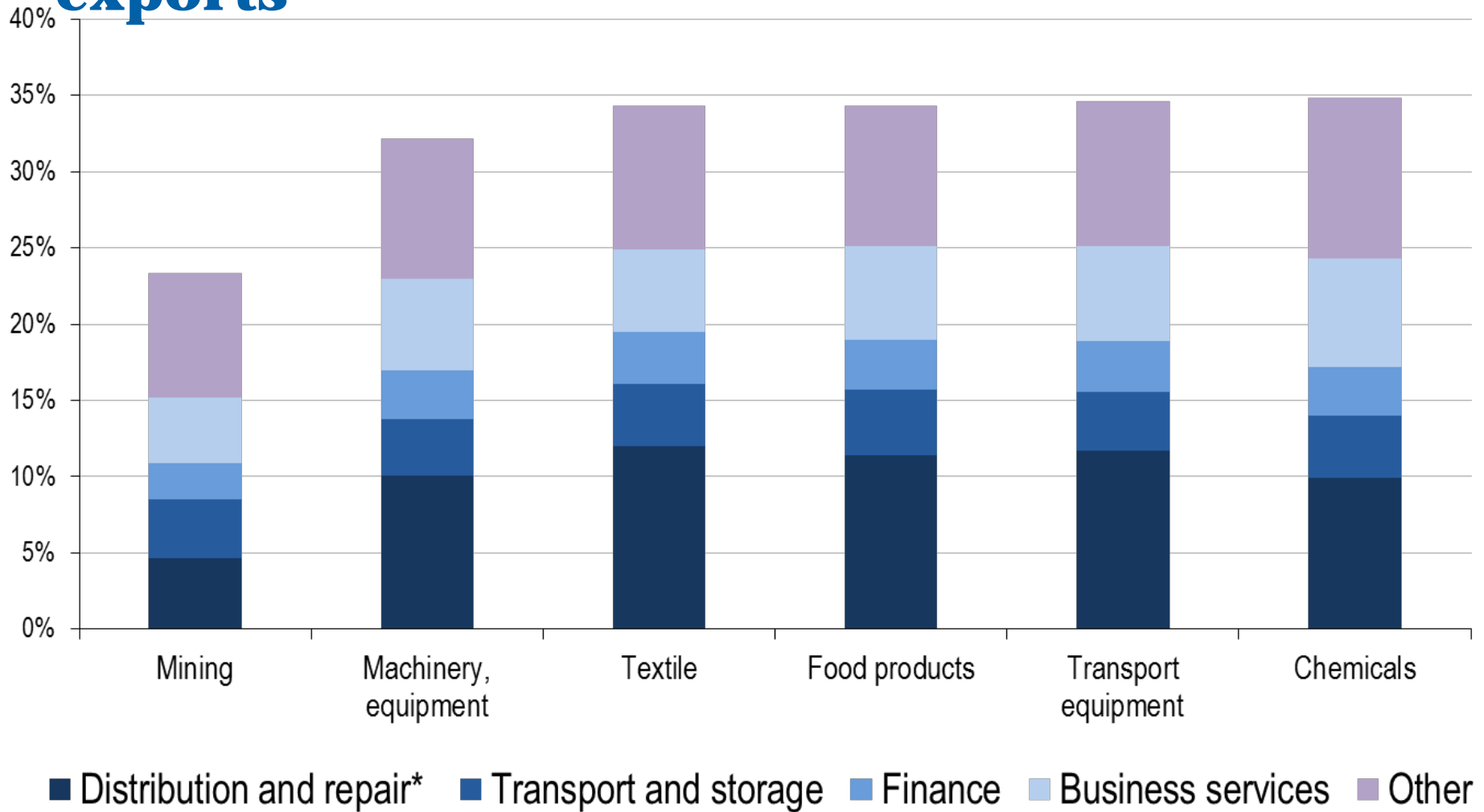


Services value add in Australia's exports is 40%, only just above the APEC average of 38%, compared with the global average of 45%, the OECD average of 48%, the BRICS average of 47% and the ASEAN average of 34%. **The redline is the global average BOP figure.**

For comparison, some non-APEC economies (services % of exported VA)

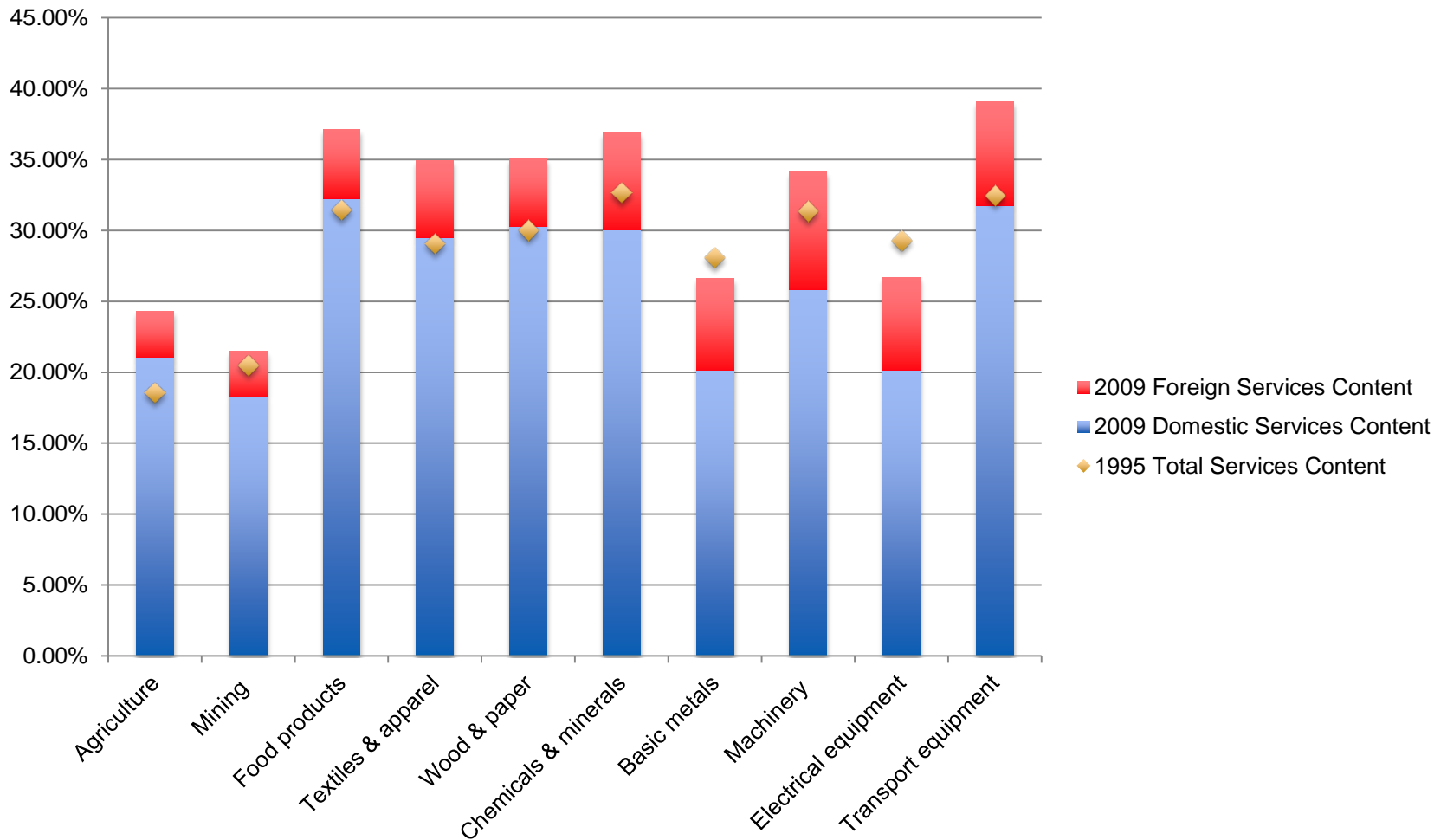


Services are “embodied” indirectly in goods exports



Source: OECD Trade and Agriculture Directorate

Embodied services content as % of gross exports, Australia



“knowledge-intensive business services”



ICT SERVICES

**EDUCATION AND
R&D SERVICES**



PROFESSIONAL SERVICES



**AUDIO-VISUAL
SERVICES**

**CULTURAL AND CREATIVE
SERVICES**



DESIGN SERVICE