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Jane Drake-Brockman EU Centre for Global Affairs

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A EU FTA: Shared Perspectives?

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seek LIGHT

EU's new trade & investment strategy

“Trade for all”

Increased focus on

GVC connectivity

Investment

Services

e-commerce/digital content/data flows

Innovation

Regulatory Cooperation

EU's new trade & investment strategy

“Trade for all”

The rise and rise of Asia

Korea, Singapore, Canada, Vietnam etc

TTIP

Japan

Investment Agreements China, Hong Kong, Taiwan

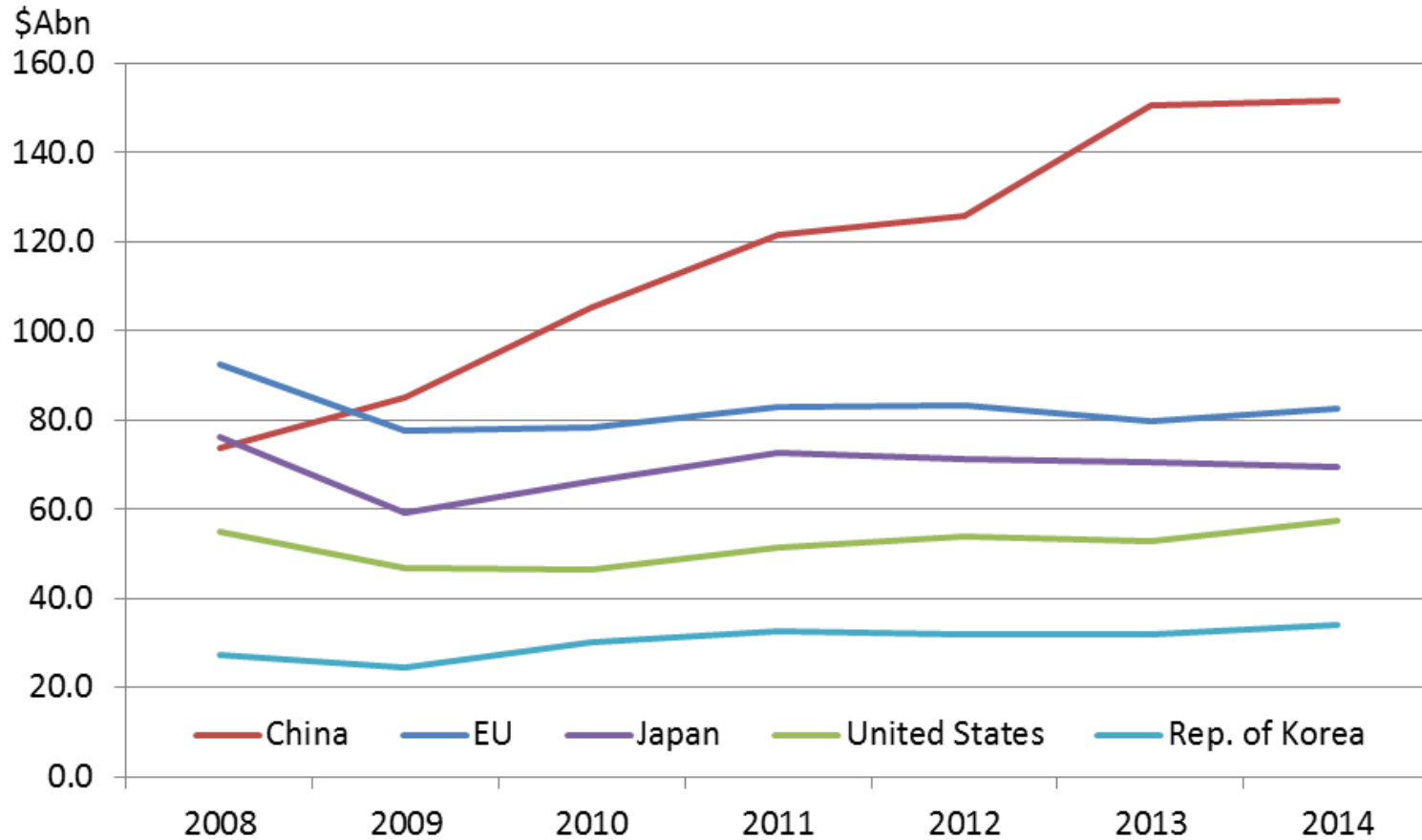
ASEAN and ASEAN Member States

(Philippines, Indonesia etc)

Australia and New Zealand

Plurilaterals: TISA, Environmental Goods

Australia's Total Trade in Goods & Services Top 5 Partners

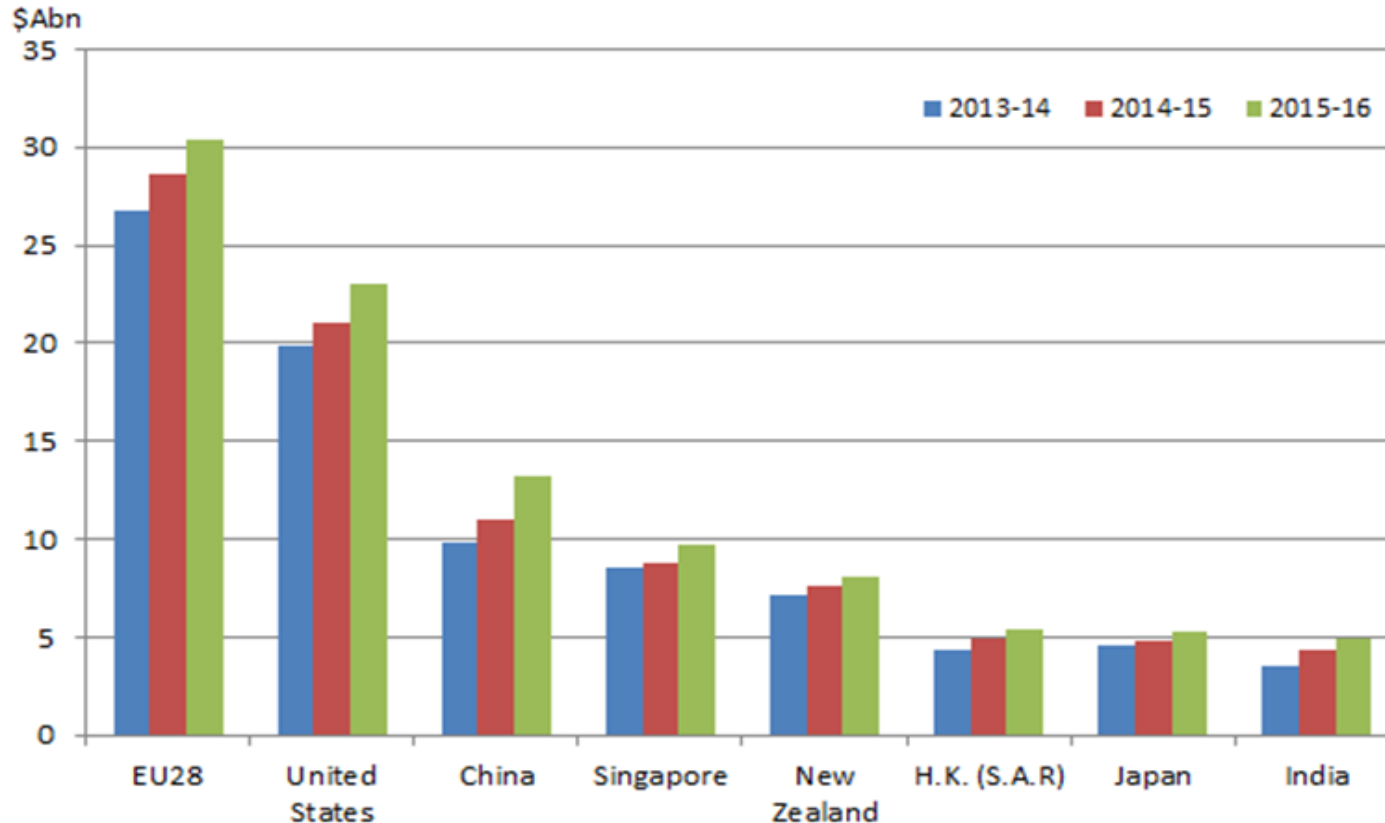


Source: Australian Bureau of Statistics

EU is Australia's 2nd largest overall trading partner

- 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
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Australian services exports, by destination



Slide contributed by Ivano Cassella, EU Delegation to Australia,
based on Australian Bureau of Statistics (2016), 5368.0.55.003

Relative importance of Services

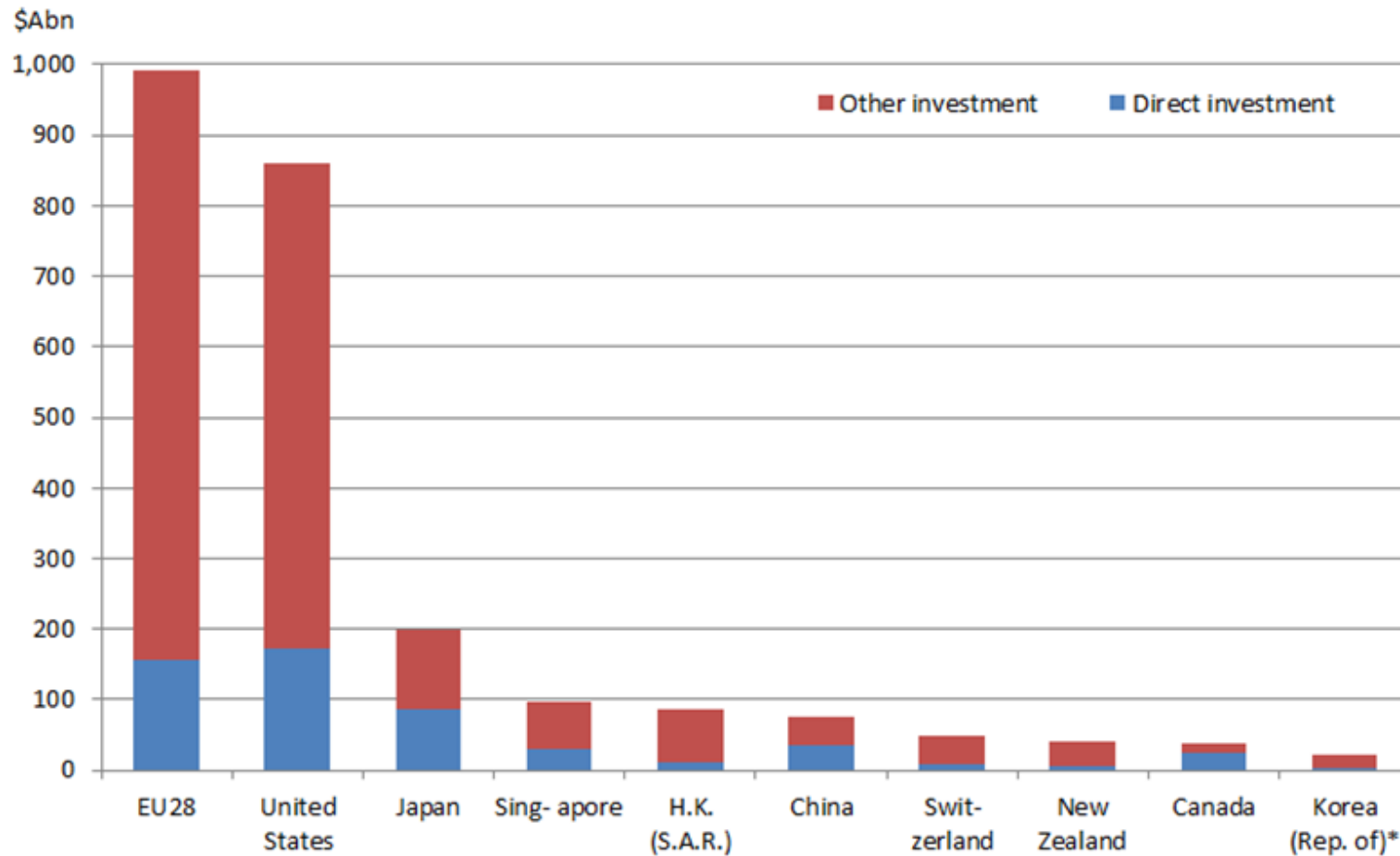
- In 2015-16, Australian services providers sold \$10.5 billion to clients in the EU. Probably half is tourism - but Australian **professional, business and technical services** providers are also big contributors to this export performance.
 - The EU is a **services growth market** for Australia, though it has not been growing as fast as China which surged ahead to reach \$10.7 billion in 2015-16, due to rapid growth in Chinese tourists and sustained growth in Chinese student numbers. In China's case, services account for only 12% of Australia's exports.
 - Balance of payments data for 2015-16 shows direct **services exports accounts for nearly 40% of Australian exports to the 28 Member States of the EU.**
 - This is a remarkable outcome, given that services average a mere 22% in total Australian exports.
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- **The EU is also Australia's largest source of services imports** (transport and travel, but other business services, financial services and computer services exports also have increased significantly).
 - **Services figure relatively much more importantly in the overall trading relationship with the EU than on average with other trading partners.**
 - **Australia's total bilateral trade in services with the EU has grown** on average more than 9% p.a. over the last decade.
 - **This contrasts with the recent evolution of bilateral merchandise trade.**
 - **Eurostat data 2010-2014 shows Australia's merchandise exports to the EU (chiefly primary products including crude materials, mineral fuels, lubricants and related materials which account for 44% of the total) fell by an average of 7% p.a.**
 - **Meanwhile Australia's merchandise imports from the EU (chiefly manufactures including machinery, transport equipment and chemical products which account for 65% of the total) increased by 2% p.a.**
 - **Over the same period, Australia's imports of services from the EU increased by 9% p.a, but Australia's services exports to the EU also increased by an average of 3% p.a.**
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Investment in services

- **2015-16 data show the EU to have become Australia's largest destination for outward foreign direct investment (FDI).**
 - **The EU ranks as Australia's largest source of inward FDI stock in Australia, with an approximate 25% share.**
 - **Services account for a 56% share in outward EU28 FDI stocks and a 60% share in inward FDI stocks**
 - **According to FDI Markets data, Australia's top 3 recipient industry sectors of inward FDI from the EU are business services, software and IT services and financial services.**
 - **Portfolio investment (subject to member state competency) accounts for as much as 64% of the total EU28 investment stock in Australia and is growing.**
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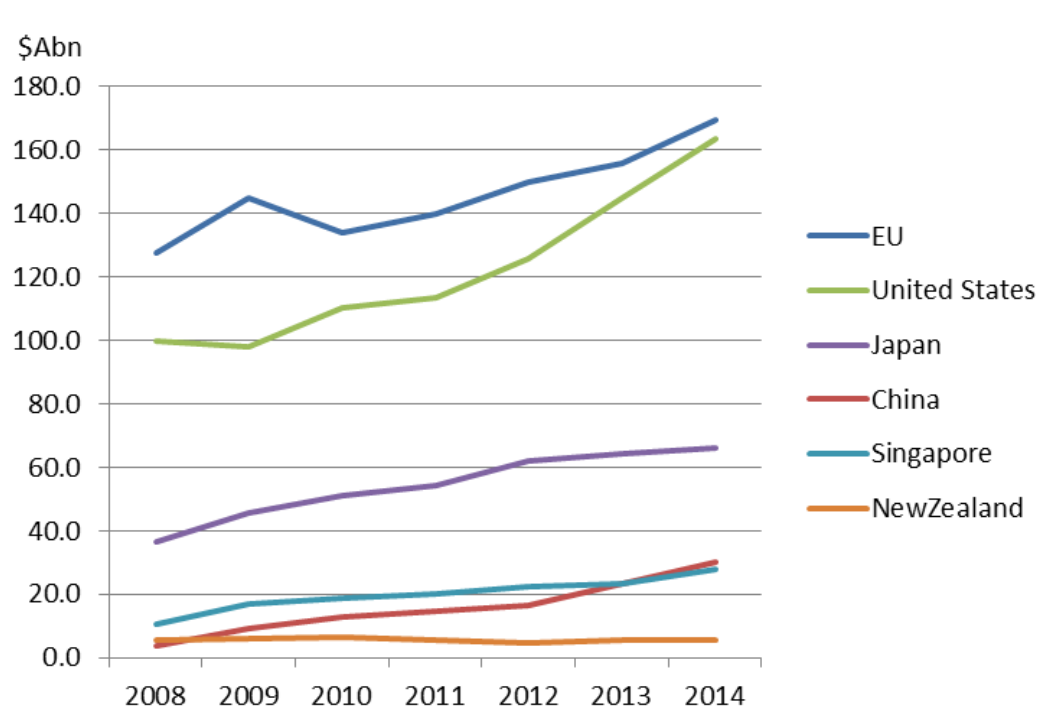
Foreign Investment stocks in Australia, 2015



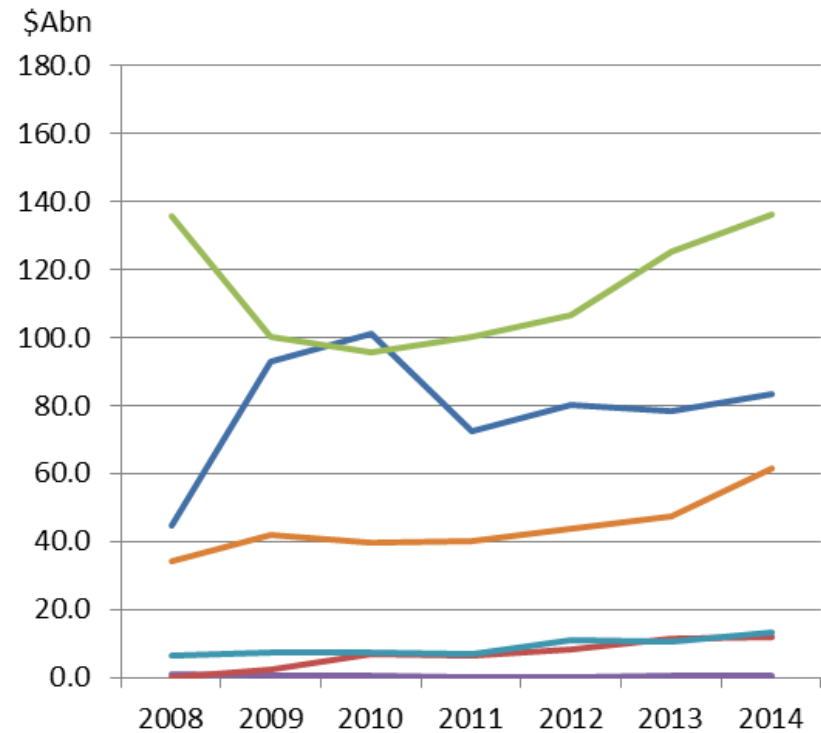
Slide contributed by Ivano Cassella, EU Delegation to Australia,

Foreign Direct Investment (FDI) Stocks

Direct investment in Australia



Australian direct investment abroad



Source: Australian Bureau of Statistics

Focus on services is a shared agenda

The rise of knowledge-based activities and the growing importance of intangible assets, together with increasing digitalisation and the enhanced role of services inputs in manufacturing and agricultural, all lead to an increasing importance of services both in Europe and in Australia.

The EU is by far the biggest exporter and importer of services in the world – and the world’s biggest investor in the services sector. The forthcoming FTA negotiations offer a potential opportunity for Australia to leverage its own strengths in the services sector.

The EU and Australia are familiar with each others negotiating positions on services rules-making and services market access issues as a result of the TISA negotiations (on hold pending Trump administration resumption).

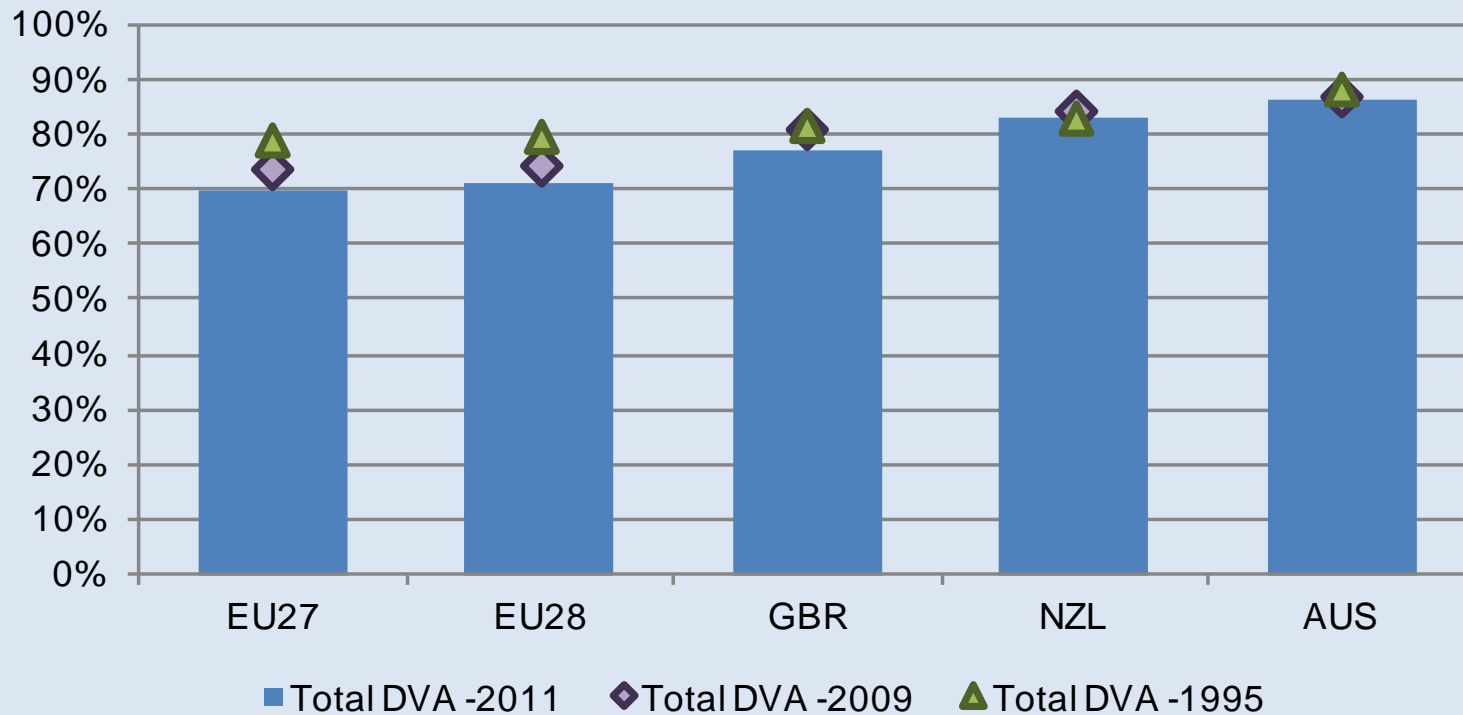
The business community on both sides expects high quality outcomes. Today’s big bilateral business opportunities lie in collaborative innovation and development of the modern services economy: in intensifying an exchange in data-related services inputs to business processes that can drive productivity gains across all industry sectors.

BUT there are 2 more stories; story 1

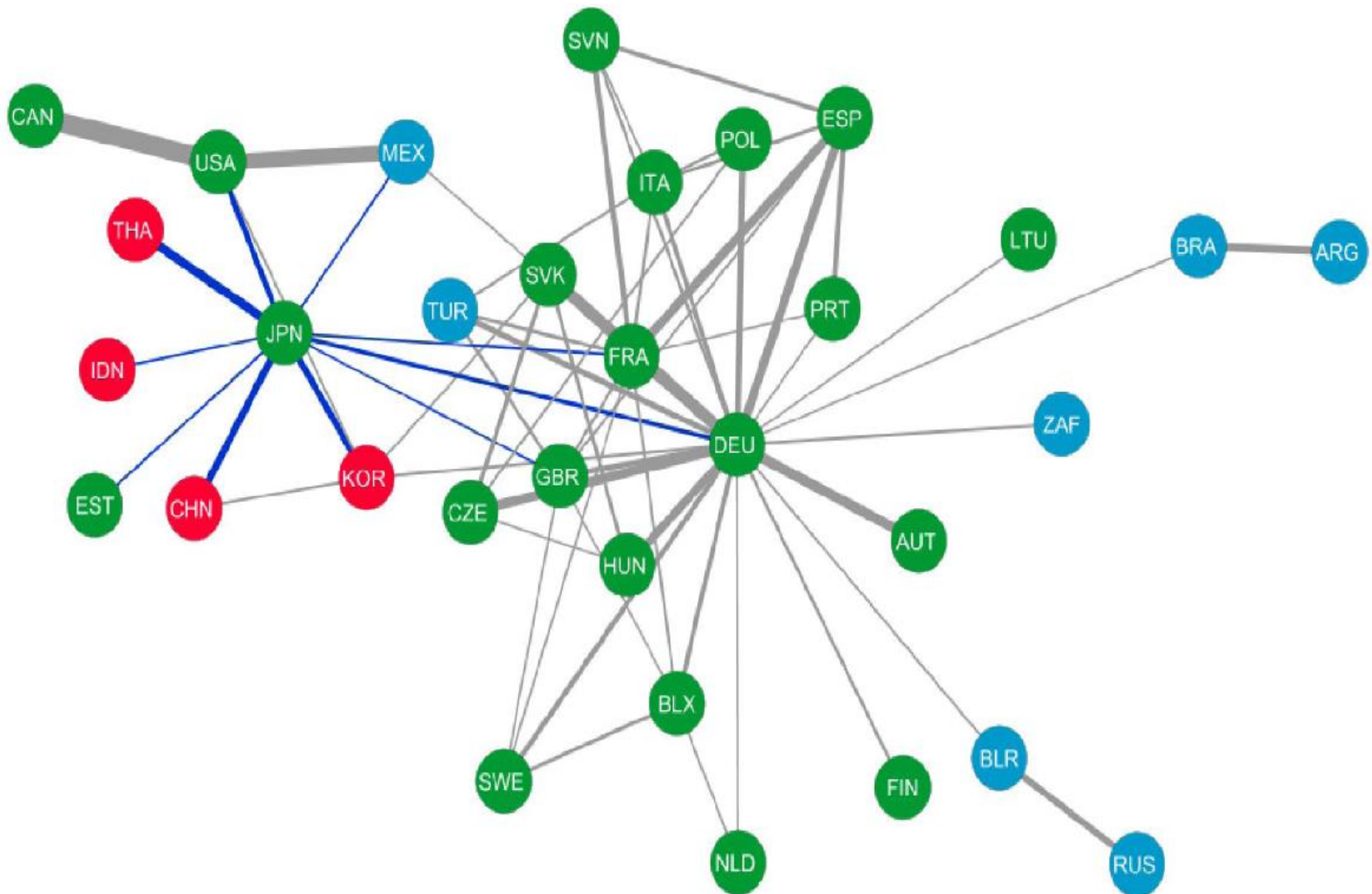
By global standards, unlike the EU, **Australia underperforms in Global Value Chain participation.**

- Perhaps unsurprisingly, given geographic remoteness and dominance of mining exports, the share of domestic value added in Australia's exports exceeds 87 % (well above the OECD average of 76 %, the EU 28 average of over 70%, the ASEAN 8 average of 70 % and 67 % for China).
 - This share has seen no more than a trivial drop over 15 years.
 - As a result, Australia's ranking in the OECD's "GVC Participation Index" is relatively low, at just over 40%, with 2/3 of exports of intermediates destined for further processing offshore ie Australia's limited participation in GVCs tends to be "forward".
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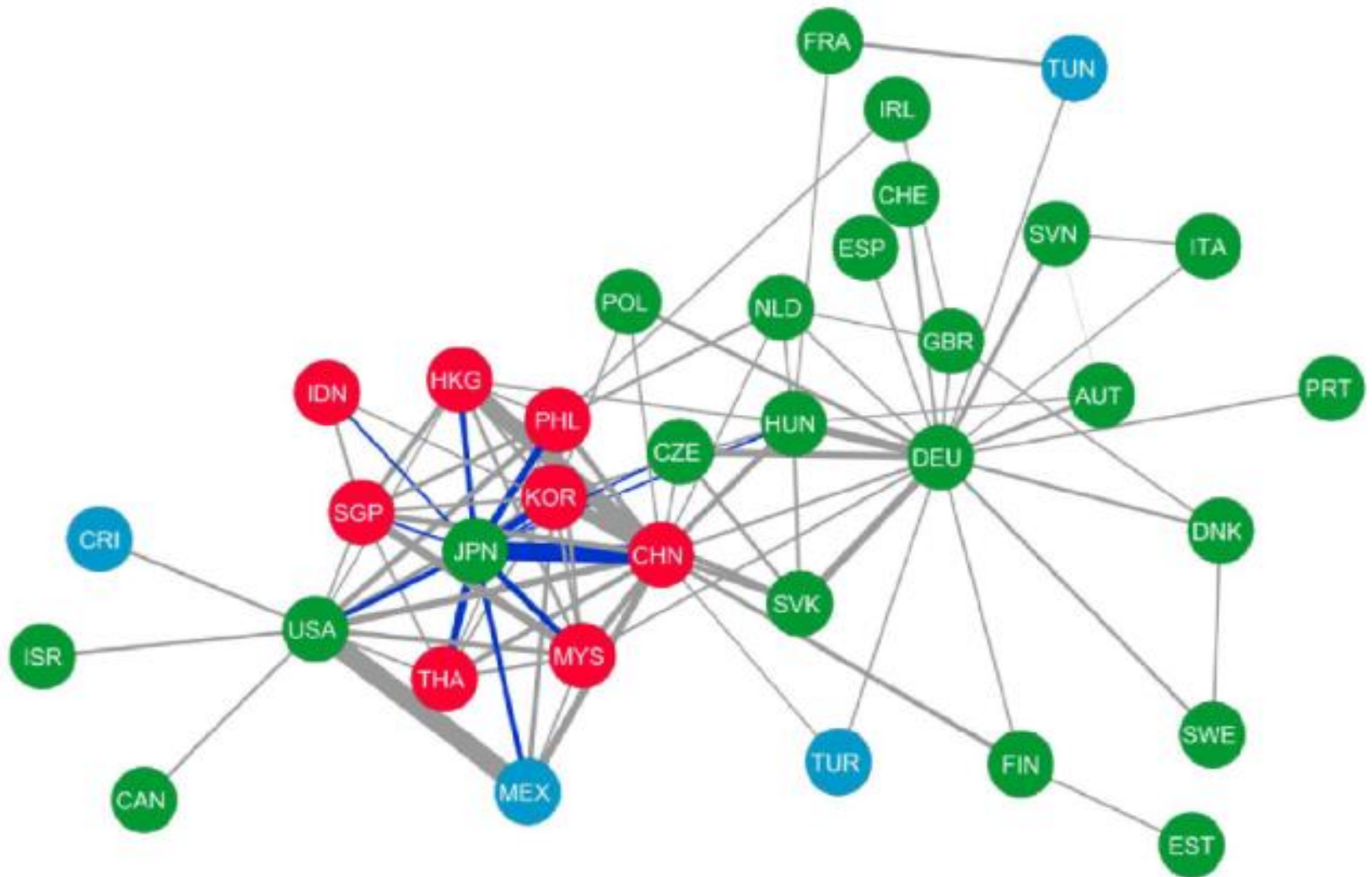
Domestic value added as % of gross exports, by region and selected countries, 2011



GVC perspective on European business participation in Asia Pacific: Automobiles



GVC perspective on European business participation in Asia Pacific: Electronics



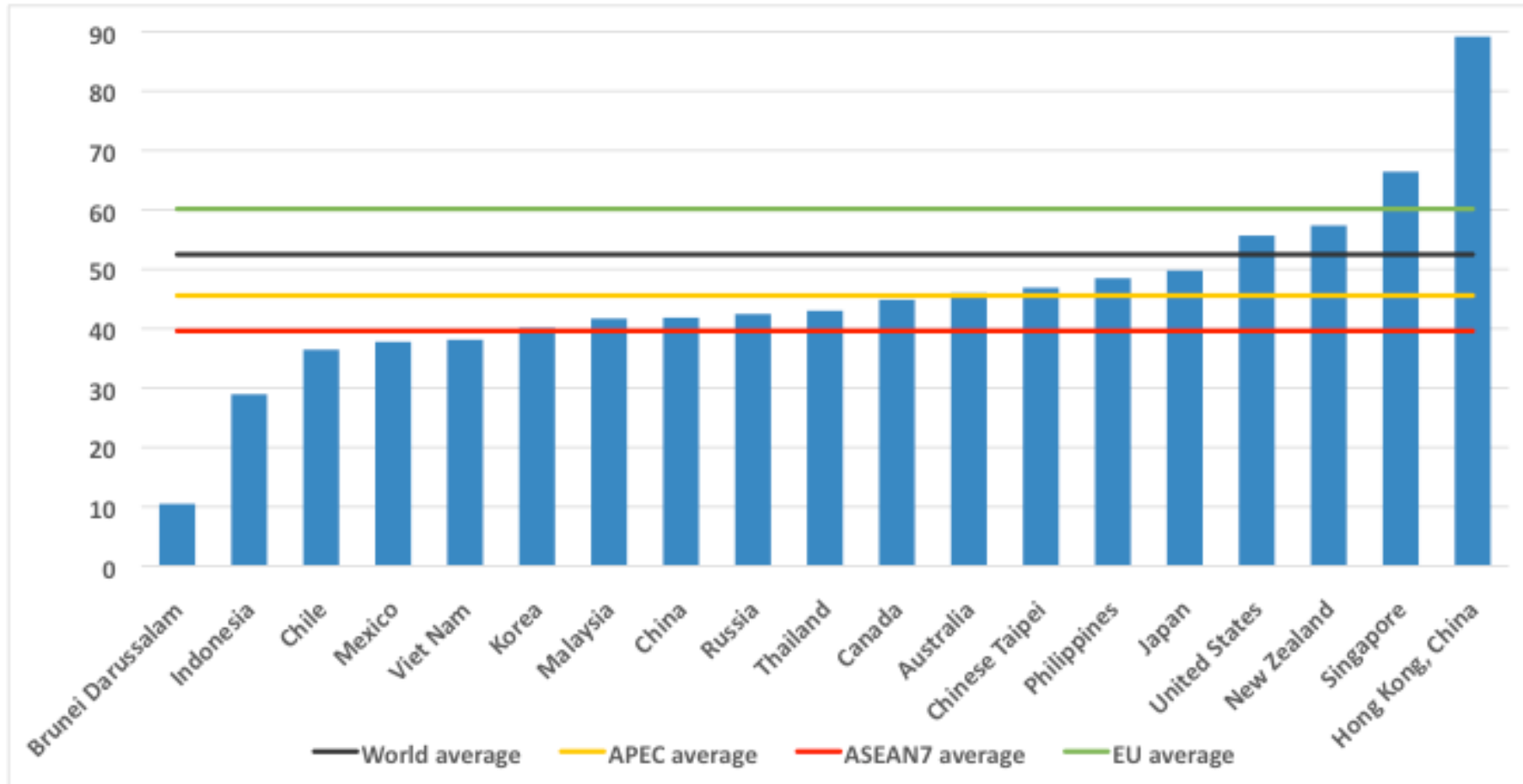
BUT there are 2 more stories; story 2

By global standards, Australia underperforms in services value-added content in exports.

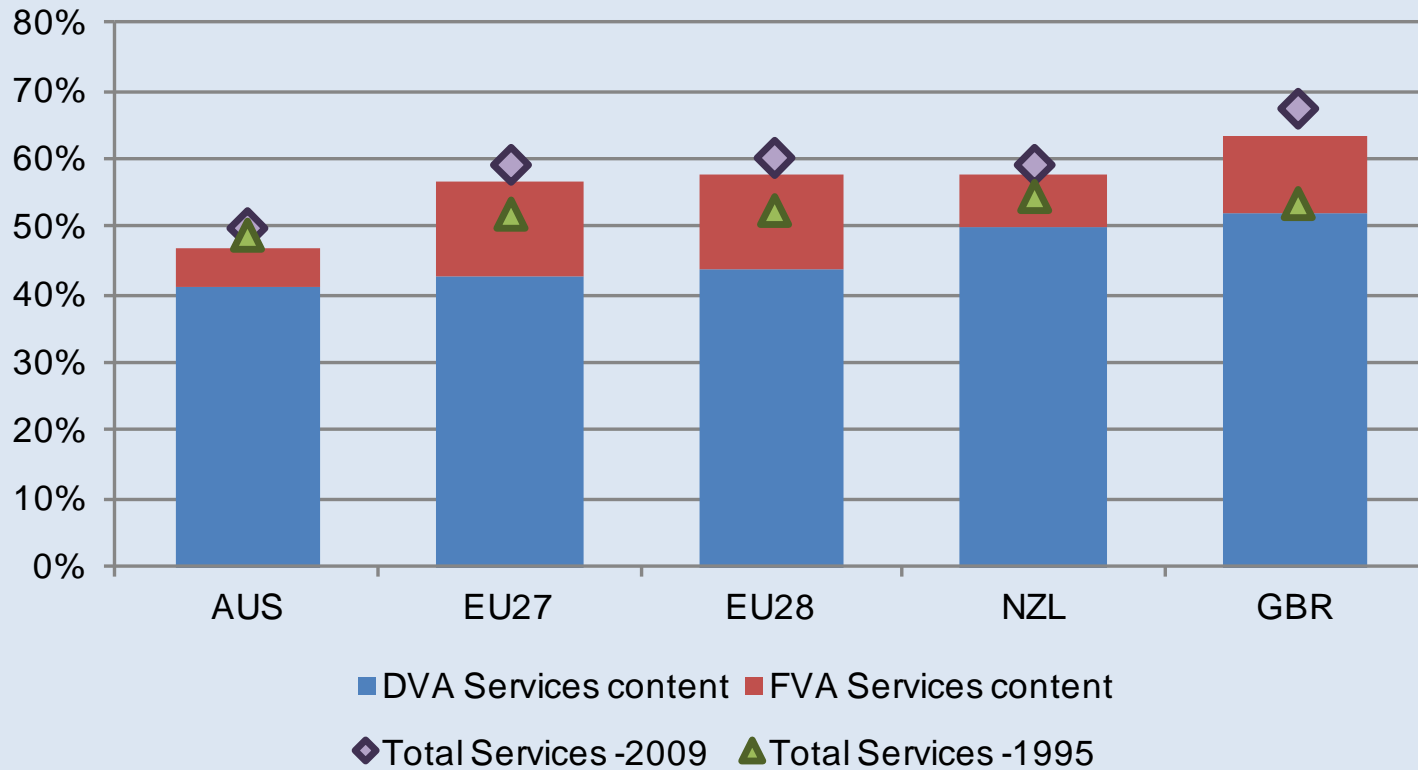
In terms of services value-added content in total gross exports, Australia, with 45% is under the APEC average of 45.5%.

It is also under the BRICS average and as much as 7.5 percentage points under the world average of 52.5% and 13.3 percentage points under the EU28 average of 58.3%.

APEC Services Content of Gross Exports



Services content of Gross Exports, by region and selected countries, 2011



Conclusion?

- **Taking all these stories together;**
 - **the relative importance of services in EU FDI into Australia**
 - **the relative growth of Australia's direct exports of services to the EU**
 - **Australia's worrying under performance in overall services content in total exports**
 - **It seems clear that a greater focus on EU services trade, investment and innovation partners must be part of the post mining-boom solution for Australia.**
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Might the story change after Brexit?

Possibly yes.

The UK represents 47% of Australia's services exports to the EU (4 times more than Germany, and more than a 1/3 of EU exports of services to Australia (twice as much as Germany)).

- **Financial services and insurance and superannuation** – more than 2/3 of Australia's exports to the EU go to the UK (79% and 68% respectively)
- **Personal, cultural and recreational services** - UK accounts for 73%
- **Other business services** – UK accounts for over 1/2 (57%)

The UK is the source of more than 1/2 of EU investment in Australia and is the destination for 2/3 of Australian outward FDI in the EU.

The services and investment story is strongly UK-oriented.
