

New strategies needed for Australia to benefit from Asian growth in services

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Businesses attending the Services Mission to China led by the Minister for Trade Dr Craig Emerson agreed there are historic new opportunities in Asia. The much talked about growth in Asian economies of domestic demand and services is finally occurring and has an unstoppable momentum.

In every area of services, from logistics, education, tourism, information and communications services to property development and finance, new global leaders will emerge from those companies that are successful in the highly competitive and contested Asian growth markets. China already has more top ten banks, IPOs, mobile phone subscribers, university graduates, cars and fast trains than anywhere else.

Services trade mostly takes place through the activities of foreign affiliates and the movement of people. This services trade benefits Australia by returning profits generated through management and technology expertise that is enhanced by an increased market.

The Qantas controversy illustrates two things: the complexity of Australian corporate strategies needed to exploit burgeoning Asian services markets and of course the sensitivity to potential local job losses in current operations as new strategies unfold. Growth in services benefits everyone by increasing welfare without the heavy demands on resources characteristic of goods.

The question is how Australia can benefit from the rapidly changing world of Asian growth, currency realignments, and changes in market access rights. Just continuing with old business models won't be the simple answer, although they may be part of the solution. Australian companies need to need to deconstruct the services value chain and consider ways to make components of that chain more competitive and adaptive to the global market place. In some cases it will mean outsourcing components of the services value chain to Asia, in other cases it may mean establishing a wholly owned subsidiary in Asia designed to meet the needs of that new market. New ideas from dynamic Asian business talent are needed too.

The 20th Century business model of housing your business in one location and exporting it as a single services offering is no longer viable. An increasingly common route being used by Australian companies, both big and small, is setting up offshore back office processing subsidiaries in target markets; with the aim of turning these around to access the local market, when they have built the necessary local expertise, contacts and confidence that Australian firms can make a sound contribution to the local economy.

There is also a need for more Australian cities to have more direct links to Asia at lower cost to open up new opportunities for Australia's international tourism, education and training and other services trade. New economic powerhouses like the province of Sichuan and adjacent Chongqing in China have no direct flights to Australia.

The strong Australian dollar makes this a logical time for Australian services companies to address these opportunities.

In addition to Qantas, Australian companies such ANZ, Macquarie Bank, IAG, Servcorp, Toll, law firms Mallesons and Minters, engineering firms Worley Parsons and SKM, universities such as UTS and Monash, architecture firms PTW and Cox already have a major footprint and plans for expansion in Asia. More than most Australians realise, our future economic wealth is dependent on Australian businesses like these succeeding in Asia.

From retailers, financial services to airline workers there are increasing concerns about the future of services jobs. The Government needs to be more convincing in explaining how it will maintain Australia's comparative advantage in high skilled services, in the face of increased competition, the high dollar and as lower skilled and some skilled services move off shore.

Properly handled, the increased tradability of services should be good for Australia, providing the same sort of spur for efficiencies and innovations that we are used to in the goods sector.

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