

## **Australian Services Roundtable**

### **Welcome Address**

**Kaaren Koomen, President**

ASR directors, ASR members and distinguished guests.

My name is Kaaren Koomen and as President of the Australian Services Roundtable, I am delighted to welcome you to our annual Services Summit for 2010. This year our theme is 'Services: Driving Global and Regional Growth' and I would like to take a few minutes to describe why this is our focus this year.

Before I do so, I would like to thank our sponsors for this event, IBM, Investment and Financial Services Association, Insurance Australia Group, and e-Centric Innovations. We all know that these types of events just cannot happen without the generous sponsorship of members - so thank you for your support from ASR and the services sector.

A year ago, this forum was dominated by concerns about the global financial crisis....

But, according to JP Morgan's Global Services report in February, activity in the worldwide services sector has just increased for the sixth consecutive month.

Clearly, today, with the global services market recovering... and the Australian economy running at its fastest speed for two years... it's time for us to focus once more on growth...

And specifically, where Australia will find the growth opportunities.

I think it's worth reinforcing at the outset, that services are not the prerogative of mature economies – their increased adoption is driving economic restructuring in both the developed and the developing

world... and globalisation and the ubiquitous nature of ICT are accelerating this process...

[PAUSE]

Indeed, I recently heard the statement that a growing economy is like a growing tree.

A tree changes the size, shape, colour and configuration of its branches and leaves as it matures, and similarly, a growing economy also changes the proportions and configurations of its basic sectors of agriculture, manufacturing and services as it also matures.

As most of you would know, for a young economy agriculture is its most important sector... but, as income per capita rises, demand for food reaches its natural limits, and people begin to demand more manufactured goods... until, in middle-income countries, these account for over 50% of GDP.

But then, another critical change occurs, as incomes rise further, the economy again restructures and demand for services increases - services like power, water, health, education, entertainment, communication, financial, information, business and green technology services can also be added to the list – which -coincidentally sounds like the list of ASR members! And I would argue that as ICT makes the world more instrumented, interconnected and intelligent, the potential reach of the companies within the services sectors expands exponentially.

Eventually, services become the leading growth sector in the economy.

This is why services has been the fastest growing sector of the global economy for over a decade...

But, it is also why services are high on the agenda of all the fast-growth economies in Asia and other growth economies...

Last month, the JP Morgan study cited the top three growth economies in the global services sector for the preceding six months as being Hong Kong, India and China.

In India, the services sector already accounts for 55% of GDP and 40% of exports, employing over 200 million people.

Last year I attended the Second China Trade in Services Conference in Beijing, and it was clear that services are seen as key to improving domestic consumption and rebalancing growth. The government recognises that the capital-intensive development of heavy industry have produced very high growth, but generated relatively few jobs.

In contrast, the services sector is very labour-intensive – and requires a more educated workforce. Services allow for the generation of more jobs – particularly higher value jobs – increasing salaries and further driving consumer demand. And for that reason services have become a high priority indeed for the Chinese govt.

And this idea is resonating throughout the region – for example, Malaysia has set a target for services to contribute 60% of GDP by 2015. And an article in the Jakarta Globe in January of this year stated, and I quote ‘ a new knowledge-intensive, services-led growth model is emerging globally and Indonesia cannot afford to be left behind’. It then went on to outlined the specific steps that the government needed to undertake to, and again I quote “unleash the potential of the Indonesian Services sector that had been bottled up for so long”.

So, Australia must recognise that – while we may have been an early mover into high value services – there is plenty of competition for our position.

But Australia does have certain advantages and the key is to develop these fully.

Services now account for over 80% of Australia's GDP, but we have not fully explored the services growth pathway...– both within the services sector and right across our economy.

Our nation has a potentially great combination – we have a solid services sector, along with traditional resources and agriculture sectors. So our comparative advantage is not just in one area, but our ability to develop each sector **as well** as develop innovative combinations of services with the other sectors. One only needs to look at the range of software and logistics in the mining industry to grasp how services can add competitive advantage to the traditional industries.

In terms of our domestic services sector, current statistics show that the services dominate the Australia economy in just about every area except one – exports.

Even allowing for the fact that some services are non-exportable, ASR believes that we can do better.

The growing internationalisation of services is throwing up new competition – but it also creates extraordinary opportunities for service industries to develop new sources of export growth...

And this is where we believe that Australia must move its focus... But we need to understand more about the levers that will enable this happen.

It is for precisely this reason that ASR members recently commissioned a Services Roadmap to understand our services sectors better, its value and role in Australia's international trade, and identify the roadblocks to services growth - and particularly export growth. I am delighted that today we are announcing the top line results of our Services Roadmap Report, prepared by ACIL Tasman.

The aim of the report is to help identify the pathway to make Australia a regional high value-added services centre.

Let me cite just two of the top line results of the report which are very interesting;

First, we confirmed that services comprise about 80 % of Australia's economy, but more striking, we found that in 2008-09, the GDP contribution of the largest services sector, Financial Services, was bigger than Manufacturing, and bigger than Agriculture and Mining combined. And knowledge intensive services are the fastest growing of all of the services sectors.

Second, 70% of all Australian companies with foreign affiliates are services companies. When the foreign offices of these companies are taken into account, we found that the services component of Australia's **total** international business sales is close to half, at 46%. This indicates that services are a much more significant component of Australia's trade statistics than was previously believed to be the case.

Not surprisingly, ASR believes that it is these areas that the Australian government and industry need to focus on, identifying and addressing the current roadblocks to growth and fully exploiting the export opportunities and the trade benefits that flow from these.

In my view, if we do not act, others will. But if we take up these opportunities, the potential for growth for small and large Australian service industries is enormous.

It is this view that provides the framework for today's Summit. In our first part of the program we will be examining some trends and developments in services policy, and in particular the trends of some of our near neighbours in the Asia Pacific region as well as more broadly – In our second session we will have a range of experts from

various services industries who will be discussing both the opportunities and challenges currently faced by players in various, domestic services sectors – with a view to how we might respond to those challenges.

So in conclusion, we welcome you to this Services Summit, and trust that you will find the discussion informative and stimulating - and the opportunities for Australia's services sector inspiring.