The National Institute of Accountants

Submission on Australian Government Review of Export Policies and Programs

May 2008

NATIONAL INSTITUTE OF ACCOUNTANTS

Every member counts

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Every Member Counts

The National Institute of Accountants

The National Institute of Accountants (NIA) is one of the three recognised professional accounting bodies in Australia, representing over 20,000 members and students in Australia and overseas. Members of the NIA work in all fields of accounting including in private practice, government, industry and academia. The NIA is actively involved in setting and enforcing professional standards and in reviewing and commenting on legislation at all levels. Being a full member of the International Federation of Accountants (IFAC), the NIA is dedicated to promoting the development of the industry.

As a professional accounting body the NIA's key roles include:

- offering post-graduate study in accounting through the Professional Education Program – a Master of Commerce (Professional Accounting) from the University of New England;
- conducting quality reviews of members in public practice, instigating investigations and where necessary discipline against members who have breached the NIA's professional and ethical requirements;
- offering Continuing Professional Education for all members (and non-members);
- providing members with information about legislative, regulatory and other changes that are affecting or may affect them;
- advocating on behalf of members and the profession as a whole, on issues of national importance;
- liaising with regulatory bodies on issues affecting members, particularly in the areas of taxation, superannuation, financial services, *Corporations Law* and accounting and auditing standards;
- setting and enforcing professional and ethical standards; and
- promoting issues of importance in the accounting profession.

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Executive Summary

The NIA welcomes the opportunity to make a submission on the Government review of export policies and programs. It provides industries with a valuable opportunity to update the Government on real-time demands and trends in export markets. Contributions on constructive recommendations from industries will facilitate the Government to improve relevant export policies and programs that will benefit both the nation and industries.

As a recognised accounting professional body with an international reputation, the NIA is dedicated to the overall development of the industry both in Australia and overseas. We believe support from the Government on the export of professional services through favourable export policies and programs will contribute significantly to the development of the Australian financial services industry and will increase its influence in the global market.

The NIA's submission is divided into three components. The first explains the current situation of Australian financial services export; the second analyses exports and demand in some developed and developing countries; and the last part highlights the recommendations from the NIA on improvements to export policies and programs.

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Background

According to the information from the Ministry of Trade, "despite rapid economic growth in our region driving high demand for energy and mineral resources, Australian exports have underperformed in recent years." In order to find the appropriate way to encourage Australian exports, it is important to find out the reasons for the underperformance.

One of the reasons for underperforming Australian exports recently are the changes in the global economic environment. Under the increasing integration of the global economic environment, the emerging economies are involving more and more proactively in the global trade market. With cost advantages in labour and raw materials, developing countries are taking over more and more of the international trade market in primary goods. However, to enter into the global markets, the participants have to be familiar with relevant international standards and the regulations and standards of their trading counterparts, especially those of developed countries. However, due to the relevant short period of development and lack of sound legislation and standards compared with the developed countries, competent financial services are increasingly in demand in emerging economies. On the other hand, some developed countries are suffering shrinking workforces due to the ageing of the population. This has been verified by the demand for experienced accountants in many countries. Therefore, financial services are in demand in both emerging economies and developed countries.

On the review of the recent export performance of Australia, we note that rural goods, mineral resources and energy resources remain as major export items. Export of tourism, education services and transportation services are increasing under the support and promotion from the Government. However, the proportion of quality Australian financial services export is very limited. According to the statistics from the Australian Bureau of Statistics (*International Trade in Goods and Services*, February 2008, P.19), services of legal, accounting management consulting and public relations are only about 2.2% in total of services exported. Even though financial services are in great demand worldwide, obstacles in financial services export markets contribute to the above low ratio, including:

- strong competition among financial service providers in global markets, especially those from the UK and US;
- traditional, conservative and strong self-protective attitudes in emerging economies; and
- significant differences existing in legislation, regulations, standards and frameworks in professional services in respective jurisdictions.

However, some of these obstacles can be significantly reduced or even eliminated with strong support from the Government through appropriate measures.

Financial services represent export items with significant margin potential. The reasons are as follows:

- Australian accounting industry is well-developed and similar to the British system that is well-recognised worldwide;

- Australia has fully adopted the International Financial Reporting Standards (IFRS);
- Australian professional qualifications are recognised internationally and as being of a high standard;
- Professional services are well value-added compared with primary goods;
- Exporting services will not only contribute monetary profits to the national revenue, but will also stimulate the domestic economy by providing more job opportunities;
- Exporting services is cost effective by using advanced information technology which can significantly reduce the overheads for business operations compared with manufacturing industries;
- The use of outsourcing will further reduce the operating costs of exporting services; and
- The timezone advantages that Australia has compared with other developed countries: Australia is 9 to 16 hours ahead of other developed countries. It provides businesses in those countries with the possibility of '24 hour' financial services that means the financial services could be provided during the off-business hours in local time (which is the business hours in Australia). As time is critical in trade, financial and investment industries, businesses with '24 hour' financial services will be in an advantagous position. Accordingly, the potential demand is likely to increase. Australian financial services are considered to be of a high quality with high standards. It is practical, therefore, to take this opportunity and promote Australian financial services in developed countries.

Analysis on Exports and Demand of Some Countries

Brief on Exports from Some Developed Countries

US

According to information provided in the *U.S. Census Bureau News* (FT-900 Release, 10 April 2008), 44.65% of total services exported from the the US in January and February 2008 is private services, which includes transactions with affiliated foreigners and transactions with unaffiliated foreigners (education services, financial services, insurance services, telecommunications services and business, professional and technical services etc.).

UK

The UK economy ranks sixth in the world in terms of export of commodities and services. The UK economy does not lag far behind the US in terms of foreign investments. The expanding European Union and the large untapped markets in the developing countries are opening new avenues to earn huge financial gains; and the overseas investment companies of the UK are making rapid inroads into them. (http://www.economywatch.com/world_economy/united-kingdom/export-import.html).

Germany

When the adverse effects of external shocks have declined, a strong and competitive exports industry is helping the German economy out of a three-year period of near stagnation. In 2004, an impressive 10% growth in exports and 8% growth in imports from the previous year were seen.

The main exports from Germany are motor vehicles, trailers and semi-trailers, electrical machinery, chemicals and chemical products. European countries remain the top-trading partner of Germany, having a two-thirds share in Germany's total trade. The other countries with which Germany has substantial trade links include: US, China, Japan, South Africa, Canada, Brazil, Australia and South Korea

After World War II, Germany started to rebuild its economy and indeed enjoyed remarkable economic success, and this "economic miracle" made it the third-largest economy in the world after the US and Japan. The government adopted prudent fiscal and monetary policy. It also benefited from external support in the form of aid under the Marshall Plan, good relations between social partners; and the focus on reconstruction contributed to its rejuvenation after the devastation of the Second World War. Germany followed an economic policy with the idea of making a social market economy. This concept demanded that market forces govern the economy, with the state retaining a role in improving the fate of the underprivileged and correcting market imperfections (http://www.economywatch.com/world_economy/germany/export-import.html).

France

Structural reforms have gone hand in hand with the opening up of the French economy to foreign trade. The main exports of France are machinery and transport equipment and agricultural products, including wine. Manufacturing accounts for three-quarters of total exports of goods and services, and exports represent 27 per cent of French GDP.

France is the world's second largest exporter of services and farm products and fourth largest exporter of goods (principally durables). France's main customers are Germany, Italy, the United Kingdom, Belgium and Spain, along with the United States.

In addition, France, like other western countries, faces the challenge of an ageing population. The need to manage pollution, natural resources and biodiversity in France continues to be a major challenge (http://www.economywatch.com/world_economy/france/export-import.html).

Canada

Trade accounts for roughly a third of GDP. Canada has signed two agreements with the US – 1989 US-Canada Free Trade Agreement (FTA) and the 1994 North American Free Trade Agreement (NAFTA) (which includes Mexico), which has brought a trade boom for Canada.

The relationship which Canada enjoys with the US is a major defining factor for Canada's dramatic increase in trade. The US and Canada have the world's largest trading relationship and the US absorbs more than 85 per cent of Canadian exports. The main exports include motor vehicles and parts, industrial machinery, aircraft, telecommunications equipment, chemicals, plastics, fertilizers; wood pulp, timber, crude petroleum, natural gas, electricity and aluminum.

As a result of globalization, Canadian enterprises are going to face even stronger competition from rivals in emerging economies in coming years. Globalization of competition, technological advances and changes in the demographic structure of the workforce continue to threaten the labour market in Canada as well as the increasing old age dependency ratio. (http://www.economywatch.com/world_economy/canada/export-import.html).

Analysis

A large percentage of the exports from developed countries are valued-added goods with technical innovation and services. Especially for France and the US respectively, export of services counts for a significant portion of total exports. The benefits of exporting services include:

- a greater contribution to the national revenue as there is a greater profit margin attached to services compared with primary goods;
- creation of more domestic job opportunities which reduces the rate of unemployment;
- fluctuation of the global market has less influence on service exports compared with primary goods which suffer variable prices and supply and demand; which in turn enhances economic stability of the export country; and
- from a long-term view, unlike natural resources, service exports are inexhaustible. On the contrary, the quality of services is likely to improve over time.

Brief on Some Developing Countries

China
As part of its continuing effort to become competitive in the global marketplace, China joined the World Trade Organisation in 2001. Its major trade partners are the US, Japan, South Korea, Taiwan and Germany. China's major industrial products are China's main exports also. Manufactured goods, including textiles, garments, electronics and arms form the highest proportion of Chinese exports (http://www.economywatch.com/world_economy/china/export-import.html).

With the accelerating involvement in the global economy, quality financial service providers, including experienced accountants, are in great demand in China. According to the survey released on 31 October, 2007 from Ernst & Young in China, 300,000 experienced accountants are required. However, there are only about 130,000 accountants in China. The gap between the demand and the supply will not be reduced in the short-term. Therefore, it has generated a valuable opportunities for the Australian accounting industry to export quality professional services to China.

In addition to the demand within the nation, the trend of Chinese large enterprises conducting IPOs in overseas exchange markets also generates increasing demand for quality financial services provided by qualified accountants.

India
In contrast to Australia and many developed countries, the proportion of young people in India is growing and the proportion of people of working age is expected to continue to grow as a result. India has an interest in expanding market access to developed country markets for its service suppliers.

Vietnam
Following the recent revision on economic policy, Vietnam is undergoing preliminary economic reform and development which provides a relatively new market compared with China and India. Vietnam is becoming a more attractive destination for foreign investment.

Analysis
In a similar way to the to the limitations presented by ageing infrastructure in faster-growing countries, in Asia, the lack of sound legislation, a comprehensive framework and industry standards, are hindering rapid economic growth. Such issues will not be solved in the short-term solely relying on domestic resources and efforts. Therefore, a good opportunity is presented for developed countries to provide services in those countries in order to meet the corresponding demand. Meanwhile, as many developed countries are suffering from a shrinking workforce whilst the workforce in many developing countries is growing, exports of professional services from developed countries may also help to reduce the pressure of a workforce shortage in developed economies as well as help emerging economies to cultivate their own professions through outsourcing. Australia should not miss this opportunity to improve its export structure into a better revenue generating model. Therefore, in addition to exporting rural goods and natural resources, Australia should expand its professional services exports.

Recommendations on Improvement of Export Policies and Programs

Factors Inhibiting Financial Services Exports

Factors that are inhibiting financial services exports performance and international competitiveness include:

- lack of local business and market knowledge;
- lack of finance; and
- lack of recognition by local government and industry.

Recommendations

The Government has made great endeavours in facilitating Australian businesses exporting and operating overseas, including strong technical support from Austrade which has a network in many countries, information support from the Export Finance and Insurance Corporation (EFIC) and financial support from the Export Market Development Grants (EMDG).

However, more favourable export policies and programs that encourage exporting professional services should be developed, revised and implemented; especially for small and medium size enterprises (SMEs) , as SMEs represent a majority in the Australian economy.

The improvement should be a comprehensive procedure which involves a range of levels of support and promotion of professional services, including:

- Free Trade Agreements (FTAs):
  FTAs are the most efficient way to open the door for Australian professionals to operate in other countries. Considering difficulties and a sensitive attitude towards foreign professional services in some countries, the very first step should be seeking mutual recognition/exemption on professional qualifications. Therefore, the following procedures are recommended to be integrated with the further FTAs that will be entered into between Australia and other countries:
  - Include professional services and an open approach of mutual recognition of professional qualifications as generic terms in the FTA. This will open the door for effective and progressive negotiations leading to finalization of the FTA.
  - Initiate reciprocal recognition/exemption negotiations on professional qualifications between the recognised accounting professional bodies in the two countries with the support from the respective governments, that is, between the JICPA and an Australian accounting delegation (the NIA, CPA Australia and the ICAA).
  - Set up schedules and an implementation plan for reciprocal recognition/exemption negotiations.
  - Involve the relevant government authorities and agencies in the two countries if necessary.

- Export Market Development Grants (EMDG):

EMDG is a very supportive program offered by the Australian Government to provide support to SMEs to develop export markets by reimbursing up to 50 per cent of eligible export promotion expenses above a threshold of $15,000.

EMDG should provide further financial support to the promotion of Australian professional services overseas.

- Encourage accounting firms to expand their operations overseas by offering more favourable tax concessions (or deductions) for exporting of financial services;

- Involve representatives of professional services providers or accounting professional organisations (the NIA, CPA Australia and the ICAA) in trade promotion delegations, events and negotiations organised by Government agencies;

- Provide more consultation on policies and regulations of target destinations:
  In addition to the available strong support from Government agencies like Austrade and the EFIC, more consultation on financial policies and relevant regulation in major countries importing Australian goods and services and target countries/regions should be provided. Australian accounting professional bodies (the NIA, CPA Australia and the ICAA) may provide technical support jointly by using their current resources and networks with local regulatory authorities and international organisations; and

- Government should devote more resources and increase its focus on promoting professional services in export markets, including financial services, legal services, architecture and engineering etc. Such promotion builds on the good reputation and high regard of Australia's professional services.

Conclusion

Due to the economic benefits to be derived from higher revenue and meeting the increasing global demand for financial services and especially acoounting services, Australia should expand the percentage of professional services as a proportion of total exports through more favourable export policies and programs, including financial services as generic items in FTA negotiations. Australia should also provide further financial support to accounting firms engaged in or seeking to engage in the export of financial services.

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