



AUSTRALIA'S FOREIGN AFFILIATES TRADE IN SERVICES

Introduction

Australia's trade in services statistics, as captured in Australia's Balance of Payments (BoP) statistics, do not cover services provided by an Australian commercial presence abroad, or services provided in Australia by a foreign-owned enterprise. Unlike goods trade, it is often necessary for a company to set up a commercial presence in the host economy to provide the service (known as a foreign affiliate). The services provided by foreign affiliates are referred to as Foreign Affiliates Trade in Services.

According to the [UN World investment report 2018](#), world sales from foreign affiliates (both goods and services) was valued at US\$30.8 trillion in 2017 (up US\$1.8 trillion from 2016).

A one-off study by the ABS in 2002-03 found that Foreign Affiliates Trade in Services was also significant for Australia, with nearly two-thirds of the provision of Australian services to the world being sourced from an Australian commercial presence abroad, valued at \$59.4 billion (or outwards Foreign Affiliates Trade in Services) compared to direct exports of around \$36 billion¹.

The ABS also conducted a one-off study of inwards Foreign Affiliates Trade in Services in 2000-01. It found that foreign-owned companies in the services sector (excluding finance and insurance) accounted for around 14 per cent of total gross value added for these industries, valued at \$35.5 billion. Operating income for the services industries (including financial and insurance industry) was valued at \$189.2 billion, compared to imports of services into Australia of around \$34 billion². The ABS is currently updating this study for 2014-15 reference year with results expected to be released in August 2018.

Three later studies showed that the level of Australian foreign affiliate activity with the world could vary significantly across service sectors.

❖ Legal services

A study on the Australian legal services markets conducted by the Law Council of Australia for 2010-11 found that Australia's provision of legal services to the world was valued at \$784.5 million in 2010-11. Services exported directly from Australia were valued at \$643.9 million while legal services to the world via a foreign affiliate (commercial presence) were valued at \$140.7 million.

❖ Financial and Insurance services

The Department of Foreign Affairs and Trade (DFAT) commissioned the ABS to conduct a survey of outward foreign affiliates trade in services for the finance and insurance sector for the reference period 2009-10. This survey found that Australia's 1,245 finance and insurance affiliates located abroad had sales of financial and insurance services valued at \$38.9 billion in 2009-10³. This compared with exports from Australia of these services valued at only \$1.4 billion. The survey found that commercial presence was critical in the provision of Australian financial and insurance services abroad⁴.

¹ ABS catalogue 5495.0, [Australia's Outwards Foreign Affiliates Trade, 2002-03](#) and DFAT's [Trade in Services, Australia, 2003-04](#) – feature article [Australia's Outwards Foreign Affiliates Trade, 2002-03](#).

² ABS catalogue 5494.0, [Economic Activity of Foreign owned Businesses in 2000-01](#).

³ Including both explicit and implicit financial services.

⁴ For more information on this survey please refer to DFAT's article [Australia's Outward Finance & Insurance Foreign Affiliates Trade in Services 2009-10](#).

❖ Education services

A 2015 report commissioned by the Department of Education and Training, *The value of international education to Australia*, found that revenue from Australian institutions' offshore campuses was not a significant component of Australian provision of education services to the world. Revenue from offshore campuses was estimated to be worth \$434 million in 2014, compared to exports of education services valued at \$17.6 billion. However in terms of student numbers offshore, delivery of education on offshore campuses was a significant component with about one quarter of all international students studying at Australian education institutions located offshore⁵.

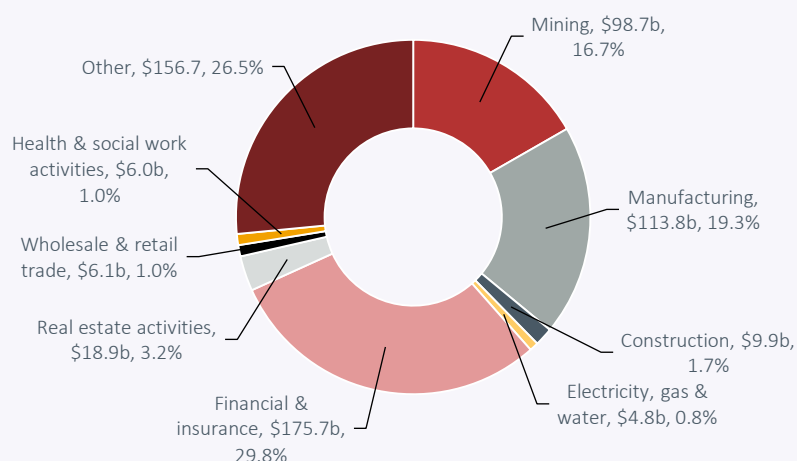
Although the ABS does not produce regular statistics on Australia's Foreign Affiliates Trade in Services, the annual ABS data on international direct investment by industry⁶ can be used as an indicator of Australian Foreign Affiliates Trade in Services activity.

Australian direct investment abroad in the services sector⁷

Australian direct investment abroad by the industry can be used as an indicator of which services industries are important for Australia in terms of its outwards Foreign Affiliates Trade in Services. The level (or stock) of Australian direct investment abroad in the services sector⁸ was valued at around \$230.0 billion in 2017⁹ and accounted for around 39.0 per cent of Australian total direct investment abroad.

The largest services sector was *Financial & insurance* with the Australian stock of direct investment abroad valued at \$175.7 billion in 2017 (up \$5.4 billion from 2016). This was followed by, the *Real estate activities* sector with direct investment stock valued at \$18.9 billion in 2017 (up \$2.4 billion from 2016) and *Construction* valued at \$9.9 billion (up \$917 million from 2016). The stock of Australian direct investment abroad in the *Wholesale & retail* sector was valued at \$6.1 billion, while the stock of direct investment in the *Human health & social work activities* sector was valued at \$6.0 billion in 2017.

Chart 1: Australian direct investment abroad – levels of investment by selected industry, 2017



Based on ABS catalogue 5352.0.

⁵ For more information refer to <https://internationaleducation.gov.au/research/research-papers/pages/research%20papers.aspx>.

⁶ ABS catalogue 5352.0, *International Investment Position, Australia: Supplementary Statistics*.

⁷ **Please note** - in ABS data the industry of the direct investor represents the main activity of the top enterprise in Australia. As a result users should be aware that Australian direct investment abroad by industry division represents the industry of the top enterprise in Australia not the industry of the affiliate abroad.

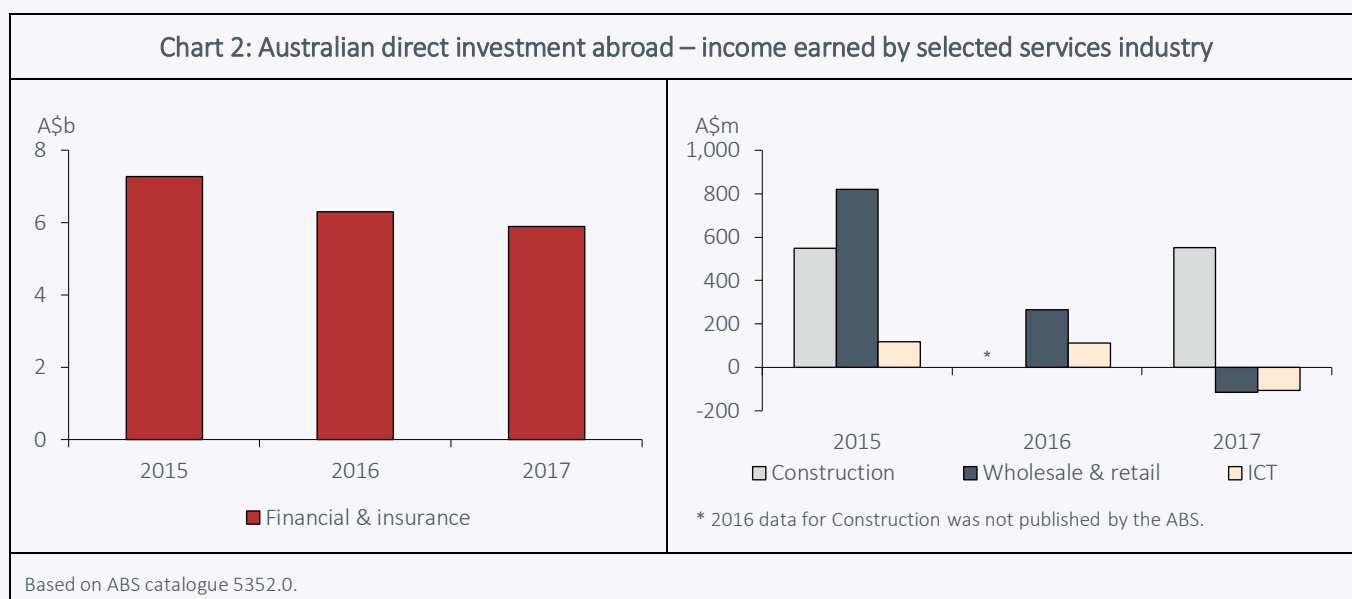
⁸ In this article the service sector is defined as all industries except *Agriculture, forestry & fishing, Mining & quarrying and Manufacturing*.

⁹ **Please note** - this excludes confidential services sector not published by the ABS. For 2017 this included *Administrative & support service activities* (valued at \$2.3 billion in 2013) and *Arts, entertainment & recreation*.

The income earned on direct investment abroad can be used as a proxy for the sales of Australian affiliates abroad. Due to confidentiality in ABS investment statistics, only a limited analysis can be done on income earned on Australian direct investment abroad for selected services industries.

In 2017, total income earned on Australian direct investment abroad for the services sector was valued at \$11.9 billion (up \$1.4 billion or 13.2 per cent on 2016). Income earned from the largest sector, *Financial & insurance* was valued at \$5.9 billion (down \$397 million).

Income earned on Australian direct investment abroad in the *Construction* sector was valued at \$551 million in 2017, the *Information & communication* sector was negative \$106 million (down \$217 million), while income earned in the *Transport & storage* sector was valued at \$141 million (up \$114 million)¹⁰.



Foreign direct investment in Australia in the services sector

Direct foreign investment in Australia by industry can be used as an indicator of which services industries are important for Australia in terms of its inwards Foreign Affiliates Trade in Services. The stock of foreign direct investment in Australia in the services sector was valued at \$335.9 billion in 2017 and accounted for 39.6 per cent of total foreign direct investment in Australia. The stock of direct investment in the services sector rose \$32.6 billion or 10.7 per cent in 2017.

The largest services sector was *Real estate activities* with the stock of foreign direct investment in Australia valued at \$91.0 billion in 2017 (up \$15.4 billion from 2016). This was followed by *Financial & insurance* with direct investment stock valued at \$74.8 billion in 2017 (up \$8.8 billion), *Wholesale & retail trade* valued at \$55.0 billion (up \$1.2 billion), and *Construction* valued at \$24.9 billion (up \$4.7 billion).

The income payable on direct investment in Australia can be used as a proxy for the sales of foreign affiliates in Australia. Due to confidentiality in ABS investment statistics, only a limited analysis can be done on income payable on foreign direct investment in Australia for selected services industries.

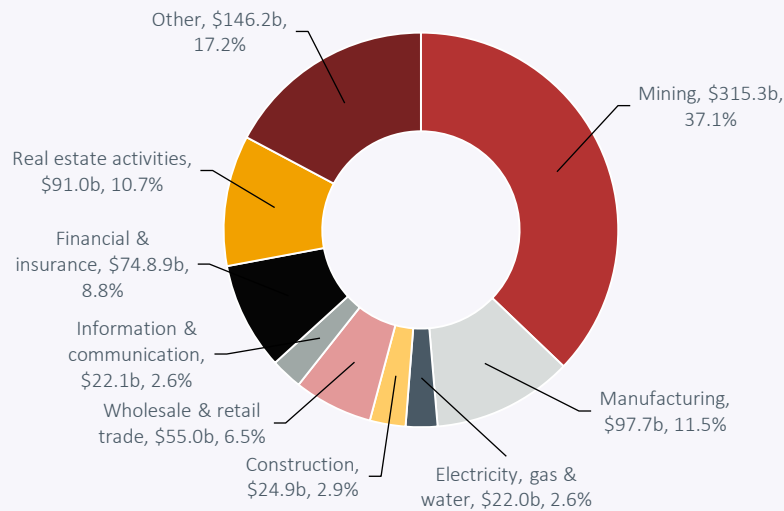
In 2017, total income payable on foreign direct investment in Australia for the services sector was valued at \$26.7 billion (up \$3.1 billion or 13.4 per cent on 2016).

The major services sectors included, *Real estate activities* (data not published by the ABS in 2017), *Financial & insurance* with income payable of \$6.6 billion (up \$1.6 billion), *Wholesale & retail trade* valued at

¹⁰ Most other services sectors income flows are confidential in ABS investment statistics and this prevents the ability to analyse other significant sectors.

\$3.0 billion (down \$586 million) and *Electricity, gas & water* valued at \$1.7 billion (up \$645 million). Also significant were, *Information & communication* valued at \$1.7 billion (up \$260 million) and *Construction* valued at \$1.6 billion (up \$545 million).

Chart 3: Foreign direct investment in Australia – levels of investment by selected industry, 2017



Based on ABS catalogue 5352.0.

Chart 4: Foreign direct investment in Australia – income payable by selected services industry



Based on ABS catalogue 5352.0.

Measuring the performance of Australian Foreign Affiliates Trade in Services activity

The income yields on both income payable and income earned for all services industries can be used as an overarching indicator of the performance of Australia's Foreign Affiliates Trade in Services. The income yield is calculated as the income earned/payable on direct investment divided by the stock of direct investment. An increasing yield indicates improved performance, while a decreasing yield indicates a fall in performance.

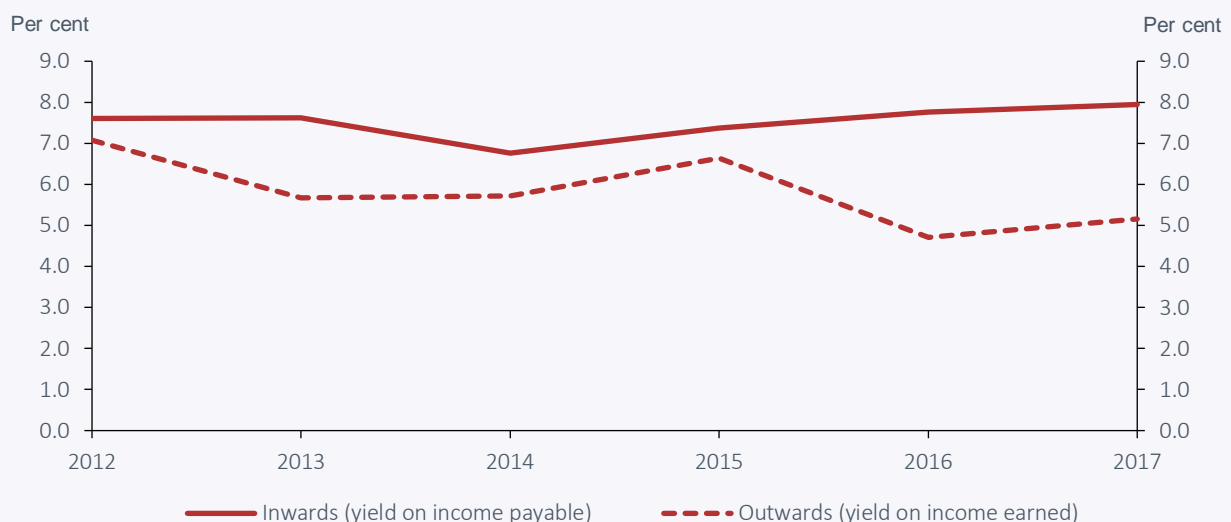
In 2017, both Australia's inwards and outwards Foreign Affiliates Trade in Services activity performance improved. For Australia's outward Foreign Affiliates Trade in Services the income yield rose from 4.7 per cent in 2016 to 5.2 per cent in 2017. The 2017 yield is below the five-year average of 5.6 per cent.

In terms of Australia's inwards Foreign Affiliates Trade in Services activity, the overall income yield rose from 7.8 per cent in 2016 to 7.9 per cent in 2017. This was higher than the five-year average yield of 7.5 per cent but still below the pre-GFC rate of 8.4 per cent.

Due to confidentiality in ABS investment statistics, only a limited analysis can be done on income yields at the services industry level.

In terms of outwards Foreign Affiliates Trade in Services, the *Financial & insurance* sector, income yield was 3.4 per cent in 2017, down from 3.7 per cent in 2016 (under the average yield for the last five-year average of 3.7 per cent) and still below the pre-GFC peak of 7.7 per cent in 2008. Income yields for the *Information & communication* sector was negative 4.5 per cent in 2017, down from 7.0 per cent in 2016. The *Construction* sector recorded an income yield of 5.6 per cent in 2017.

Chart 5: Australia's Foreign Affiliates Trade in Services – Income yield



Based on ABS catalogue 5352.0.

In terms of inwards Foreign Affiliates Trade in Services activity, in 2016 the overall income yield was 8.8 per cent for *Financial & insurance* (up from 7.6 per cent in 2016), 5.4 per cent for the *Wholesale & retail trade*, (down from 6.6 per cent in 2016) and 7.9 per cent for *Electricity, gas & water* (up from 6.9 per cent in 2016). The income yield for *Construction* was recorded 6.4 per cent in 2017 (up from 5.2 per cent in 2016) and 7.7 per cent for *Information & communication* (up from 6.4 per cent in 2016).



More information

For more information, please refer to *Section 9 Direct investment in services industries (Tables 68 to 73)* in the [Trade in Services Australia 2017](#) publication.

Though the ABS does not publish data on Australia's Foreign Affiliates Trade in Services, some other economies' statistical organisations do compile data, in particular the European Union and the United States. As an example, *Attachment A* uses United States Foreign Affiliates Trade in Services data to analyse trends in the United States Foreign Affiliates Trade in Services with Australia.

It is planned to update this analysis on an annual basis. The next update with 2017 data is expected to be published in August 2019.

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ATTACHMENT A: UNITED STATES FOREIGN AFFILIATES TRADE IN SERVICES WITH AUSTRALIA

Summary

The United States is Australia's most important services trading partner. Trade in services has grown steadily over the past 20 years with the services trade relationship being further enhanced through the Australia-United States Free Trade Agreement. Though trade declined sharply during the GFC, it has recovered strongly over the past few years and in most areas has now exceeded the peaks reached before the GFC.

Services delivered by Australian affiliates in the United States and United States affiliates in Australia are the key mode for the provision and purchases of services between Australia and the United States. Services provided by foreign affiliates accounted for around 70 per cent of the provision and purchases of services between Australia and the United States.

The United States' [Bureau of Economic Analysis](#) (BEA) compiles and publishes data on United States foreign affiliates' trade with the world, both inwards and outwards. This data can be used to analyse trends in the United States Foreign Affiliates Trade in Services (Foreign Affiliates Trade in Services) with Australia. The latest data published by the BEA is for the calendar year 2015.

United States inwards foreign affiliates trade in services with Australia, 2015

Australia had 111 majority-owned affiliates in the United States in 2015¹¹ – refer to [Table 1](#). These affiliates had total assets in the United States of US\$237.8 billion. The gross value added by these affiliates to the United States economy was worth US\$17.3 billion in 2015. The affiliates had sales of goods and services in the United States valued at US\$55.6 billion, of which sales of services were valued at US\$17.6 billion in 2015. The affiliates employed 93,700 persons and paid wages and salaries (compensation of employees) valued at US\$8.3 billion during 2015.

In 2015, Australian affiliates in the United States recorded a decrease in performance, with total sales falling 1.6 per cent however, services sales rose 5.4 per cent. After a period of steady growth, assets decreased 14.3 per cent, employment fell 0.8 per cent and gross value added fell 1.5 per cent in 2015.

Table 1: Summary indicators of Australian majority-owned affiliates in the United States (a)

	Unit	2012	2013	2014	2015
No of affiliates (b)	No.	114	116	114	111
Number of companies consolidated	No.	1,220	1,169	1,087	1,061
Total assets	US\$m	271,376	273,433	277,367	237,831
Employment	000's	91.3	94.9	94.5	93.7
Compensation of employees	US\$m	8,356	8,208	8,388	8,319
Sale of goods and services	US\$m	56,707	58,170	56,503	55,612
Sale of services	US\$m	21,977	21,331	16,681	17,579
Gross value added	US\$m	15,632	15,873	17,551	17,281

(a) Based on economy of ultimate beneficial ownership. (b) Number of Affiliates with assets, sales, or net income (+/-) greater than \$15 million. Source: BEA Financial and Operating Data for US Affiliates of Foreign Multinational Companies.

¹¹ The number of affiliates with assets, sales, or net Income (or loss) greater than US\$15 million. The data is based on the country of Ultimate Beneficial Ownership (UBO). UBO refers to the country being the ultimate (or top) owner of the affiliate in the United States. For example, Australia would not be considered to be the UBO of a foreign-owned firm in Australia that had an affiliate in the United States.

The sales of services by Australian affiliates in the United States have grown on average by 10.1 per cent per annum from US\$7.4 billion in 2006 to US\$17.6 billion in 2015. In contrast, United States imports of services from Australia have grown on average by 4.8 per cent per annum from US\$4.5 billion to US\$7.2 billion in 2015. Sales by Australian affiliates in the United States accounted for 70.9 per cent share of the total purchases of services from Australia by the United States (up from 62.1 per cent in 2006) – refer to *Table 2*.

Table 2: United States foreign affiliates trade in services with Australia (UBO)¹² – US\$ million

	2006	2014	2015	% average growth 2006 to 2015
Australian affiliates located in the United States - sales of services (FATS)	7,444	16,681	17,579	10.1
United States services imports from Australia	4,540	6,481	7,203	4.8
Total purchases of Australian services by the United States	11,984	23,162	24,782	8.5
<i>FATS share (%)</i>	62.1	72.0	70.9	
US affiliates located in Australia - sales of services (FATS)	30,153	51,164	44,718	5.3
United States services exports to Australia	9,084	21,423	22,344	10.1
Total provision of United States services to Australia	39,237	72,587	67,062	6.6
<i>FATS share (%)</i>	76.8	70.5	66.7	

Source: BEA Financial and Operating Data for US Multinational Companies and Financial and Operating Data for US Affiliates of Foreign Multinational Companies.

Growth in sales of services by Australian affiliates in the United States accounted for 79.2 per cent of the total growth in purchases of services from Australia by the United States between 2006 and 2015.

Sales of services by Australian *Finance & insurance* affiliates in the United States accounted for the largest share of total services sales valued at US\$6.1 billion in 2015 (up from just US\$624 million in 2006) representing average annual growth of 30.7 per cent. – refer to *Table 3*. This was followed by sales of *Professional, scientific & technical services* affiliates with sales valued at US\$3.4 billion (up from US\$1.5 billion in 2006) and *Real estate, rental & leasing* affiliates with sales valued at US\$2.7 billion. A significant amount of data for Australian affiliates by industry is not published by the BEA (valued at US\$4.1 billion in 2015).

¹² Ultimate beneficial ownership.

Table 3: Sales of services supplied by Australian majority-owned affiliates in the United States by industry of the affiliate – US\$ million

Industry of affiliate	2006	2014	2015
Manufacturing	530	771	752
Wholesale & retail trade (c)	197	517	546
Information	70	39	38
Finance & insurance	624	5,267	6,118
Real estate, rental & leasing	3,588	2,618	2,657
Professional, scientific & technical services	1,532	3,431	3,382
Other industries	903	np	np
Agriculture, forestry, fishing & hunting	0	0	0
Mining	0	np	np
Utilities	np	np	np
Construction (b)	0	np	np
Transportation & warehousing	np	503	465
Management of companies & enterprises	0	0	0
Administration, support, & waste management	np	np	np
Health care & social assistance	np	np	np
Accommodation & food services	np	np	np
Miscellaneous services	np	np	np
Total sales of services	7,444	16,681	17,579
of which: <i>Confidential items</i>	0	4,038	4,086

(a) Based on economy of ultimate beneficial ownership. (b) In BEA statistics, sales resulting from construction are recorded as goods rather than sales of services, the sales of services represent sales in secondary, non-construction industries. np - not published.

Source: BEA Financial and Operating Data for U.S. Affiliates of Foreign Multinational Companies.

United States outwards foreign affiliates trade in services with Australia, 2015

The United States had 1,068 majority-owned foreign affiliates in Australia in 2015¹³ – refer to *Table 4*. These affiliates had total assets in Australia of US\$639.2 billion. The gross value added by these affiliates to the Australian economy was worth US\$41.6 billion in 2015. The affiliates had sales of goods and services in Australia valued at US\$152.2 billion, of which sales of services were valued at US\$44.7 billion in 2015. The affiliates employed 323,200 persons and paid wages and salaries (compensation of employees) valued at US\$26.6 billion during 2015.

Table 4: Summary indicators of United States majority-owned foreign affiliates in Australia

	Unit	2012	2013	2014	2015
No of affiliates (a)	No.	816	833	1,051	1,068
Total assets	US\$m	573,811	582,424	677,567	639,222
Employment	000's	308.1	309.4	343.4	323.2
Compensation of employees	US\$m	26,863	27,042	29,666	26,647
Sale of goods and services	US\$m	184,429	185,621	183,124	152,193
Sale of services	US\$m	50,398	52,774	51,164	44,718
Gross value added	US\$m	56,984	50,140	58,424	41,610

(a) Number of affiliates with assets, sales, or net income (+/-) greater than \$25 million.

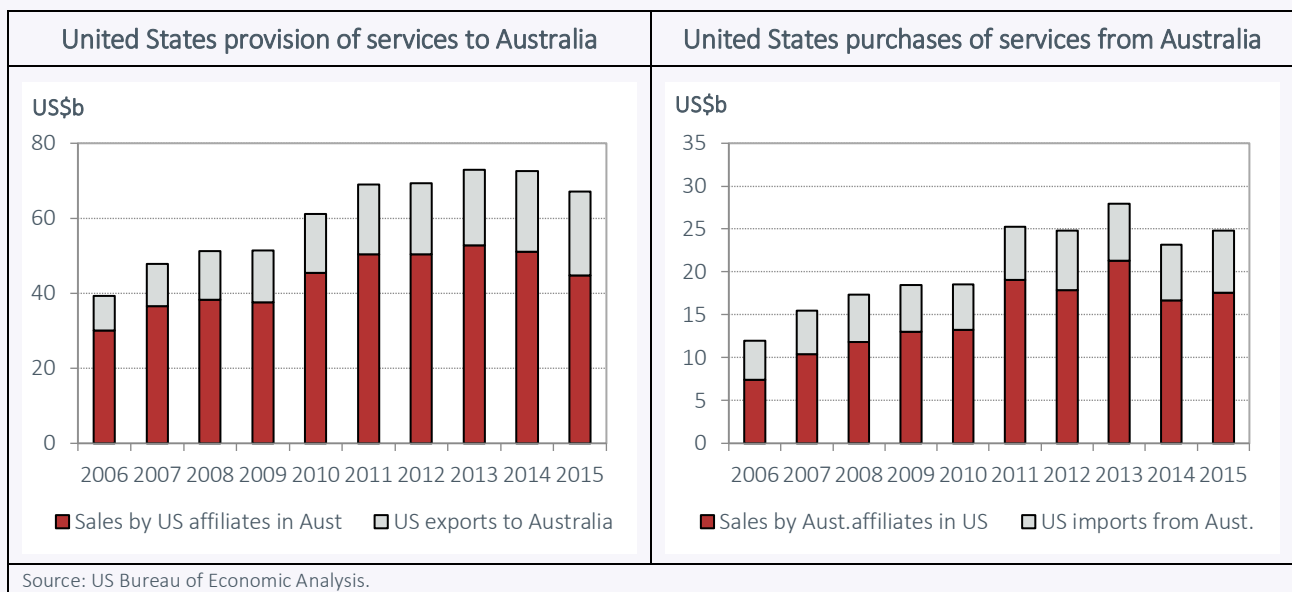
Source: BEA Financial and Operating Data for U.S. Multinational Companies.

¹³ Majority-owned includes all affiliates of which the United States owns 50 per cent or more equity in the affiliates. The number of affiliates with assets, sales, or net income (+/-) greater than US\$25 million.

Following a period of strong growth, United States affiliates in Australia recorded a decrease in performance in 2015, with total sales falling 16.9 per cent (services sales down 12.6 per cent). Most other indicators also recorded decreases in 2015, with assets decreasing 5.7 per cent, employment down 5.9 per cent and gross value added down 28.8 per cent.

The sales of services by United States affiliates in Australia have grown on average by 5.3 per cent per annum from US\$30.2 billion in 2006 to US\$44.7 billion in 2015, compared to United States exports of services to Australia, which have grown on average by 10.1 per cent per annum to US\$22.3 billion in 2015. Sales by United States affiliates in Australia accounted for 66.7 per cent of the total provision of services to Australia from the United States in 2015 (down from 76.8 per cent in 2006) – refer to **Table 2**.

Growth in sales of services by United States affiliates in Australia accounted for 52.3 per cent of the total growth in the provision of United States services to Australia between 2006 and 2015.



Sales of services by United States *Professional, scientific & technical services* affiliates in Australia accounted for the largest share of total services sales valued at US\$10.8 billion in 2015 (up from US\$4.9 billion in 2006) – refer to **Table 5**. This was followed by *Wholesale & retail trade* with sales valued at US\$8.4 billion (up from US\$6.2 billion in 2006), *Information* with sales valued at US\$6.3 billion (up from US\$5.7 billion in 2006) and *Finance & insurance* affiliates with sales of services valued at US\$6.5 billion (up from US\$6.1 billion in 2006).

Table 5: Sales of services supplied by United States majority-owned affiliates in Australia by industry of the affiliate – US\$ million

Industry of affiliate	2006	2014	2015
Mining	564	1,579	1,509
Manufacturing	308	985	954
Wholesale & retail trade	6,167	9,160	8,353
Information	5,722	7,045	6,275
Publishing industries	2,678	4,048	3,641
Motion picture and sound recording industries	682	963	791
Telecommunications	np	np	np
Broadcasting (except Internet)	np	np	np
Data processing, hosting & related services	na	418	414
Other information services	na	877	920
Finance & insurance	6,107	7,718	6,548
Depository credit intermediation (banking)	na	1,816	1,571
Finance, except depository institutions	na	4,002	3,242
Insurance carriers & related activities	1,158	1,900	1,735
Real estate, rental & leasing	857	1,892	1,706
Professional, scientific & technical services	4,926	13,561	10,774
Architectural, engineering, & related services	659	3,982	2,321
Computer systems design & related services	3,088	5,717	4,995
Management, scientific, & technical consulting	575	1,800	1,697
Other	605	2,062	1,760
Other industries	5,501	9,224	8,599
Agriculture, forestry, fishing & hunting	np	190	116
Utilities	np	99	84
Construction (a)	np	261	433
Transportation & warehousing	502	1,969	1,700
Management of companies & enterprises	np	64	63
Administration, support, & waste management	2,674	2,797	2,861
Health care & social assistance	0	104	104
Accommodation & food services	1,465	2,995	2,350
Miscellaneous services	316	801	941
Total sales of services	30,153	51,164	44,718

np - not published

(a) In BEA statistics, sales resulting from construction are recorded as goods rather than sales of services, the sales of services represent sales in secondary, non-construction industries.

Source: BEA Financial and Operating Data for U.S. Multinational Companies.