

Australia's outwards foreign affiliates services trade: 2002-03

Introduction

Australia's economic interaction with the world as captured in the Balance of Payments statistics, measures Australia's trade flows (exports and imports), income earned and paid and associated financial flows with the rest of the world. The Balance of Payments does not, however, cover all aspects of Australian business overseas. Australia is a significant direct investor abroad, with over \$152 billion invested in affiliated companies abroad in 2002-03¹. A new survey conducted by the Australian Bureau of Statistics (ABS) attempts to measure the trade by the foreign affiliates of Australian companies for 2002-03². This trade is not included in balance of payments and associated national accounts statistics, as it is considered to be part of the non-resident economy³. However, trade by Australian foreign affiliates in its own right is important in terms of understanding Australia's overall global links with the world economy, in particular for services trade and for trade negotiations.

An important point to note is that sales of goods and services by affiliates, at \$142 billion in 2002-03, were almost as much as the \$148.5 billion of goods and services exports from Australia in the same year.

The following table summaries the main characteristics of these foreign affiliates of Australian companies.

Summary Characteristics of Australia's Foreign Affiliates		
		2002-03
Number of Australian enterprise groups with affiliates abroad	no.	641
Number of foreign affiliates	no.	4,012
Employment by affiliates	no.	321,924
Wages and salaries	\$m	14,002
Sales by affiliates	\$m	142,321
Goods	\$m	77,039
Services	\$m	65,282
Purchases by affiliates	\$m	91,605
Goods	\$m	50,987
services	\$m	40,618
Source: ABS. Cat. No. 5495.0		

Sales of services by Australian foreign affiliates

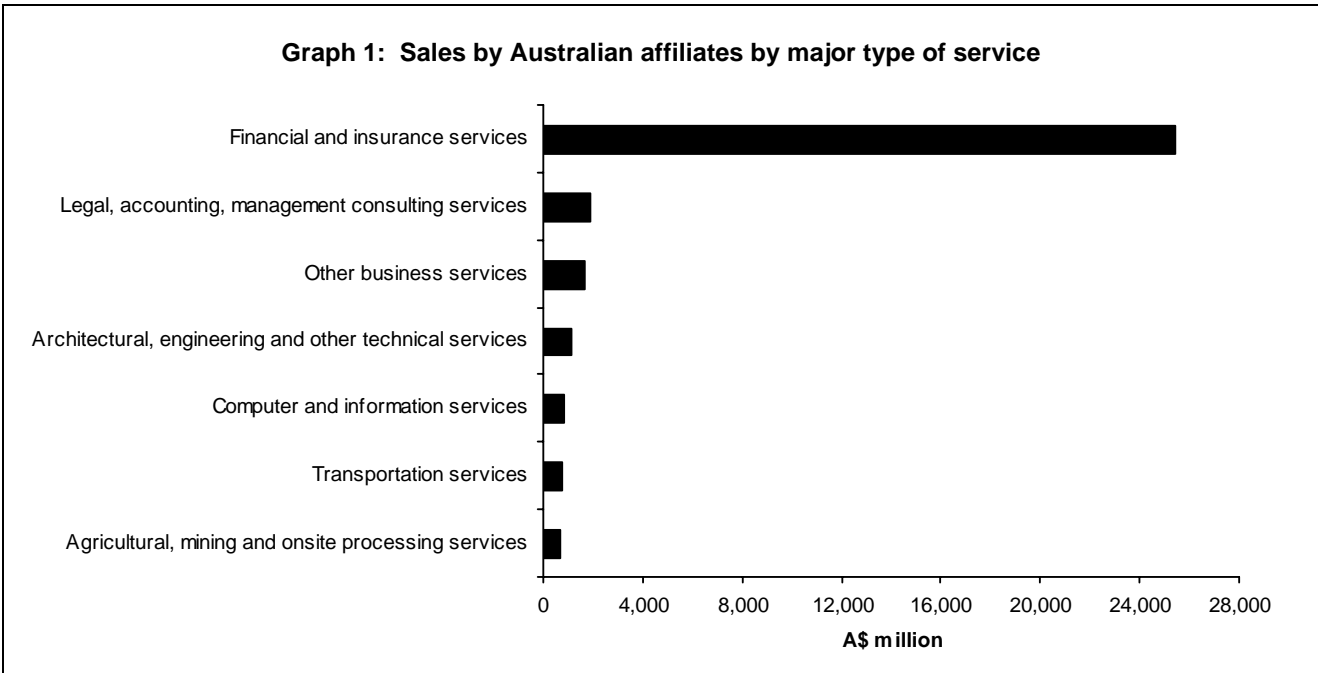
In 2002-03, sales of services from Australian foreign affiliates totalled \$65.3 billion. Sales to the host economy (i.e. local sales) accounted for 91 per cent of total services sales, or \$59.4 billion. This indicates that foreign affiliates of Australian companies were largely focused on their local domestic markets.

¹ Direct investment includes all investment where the investor owns 10% or more of the total equity capital.

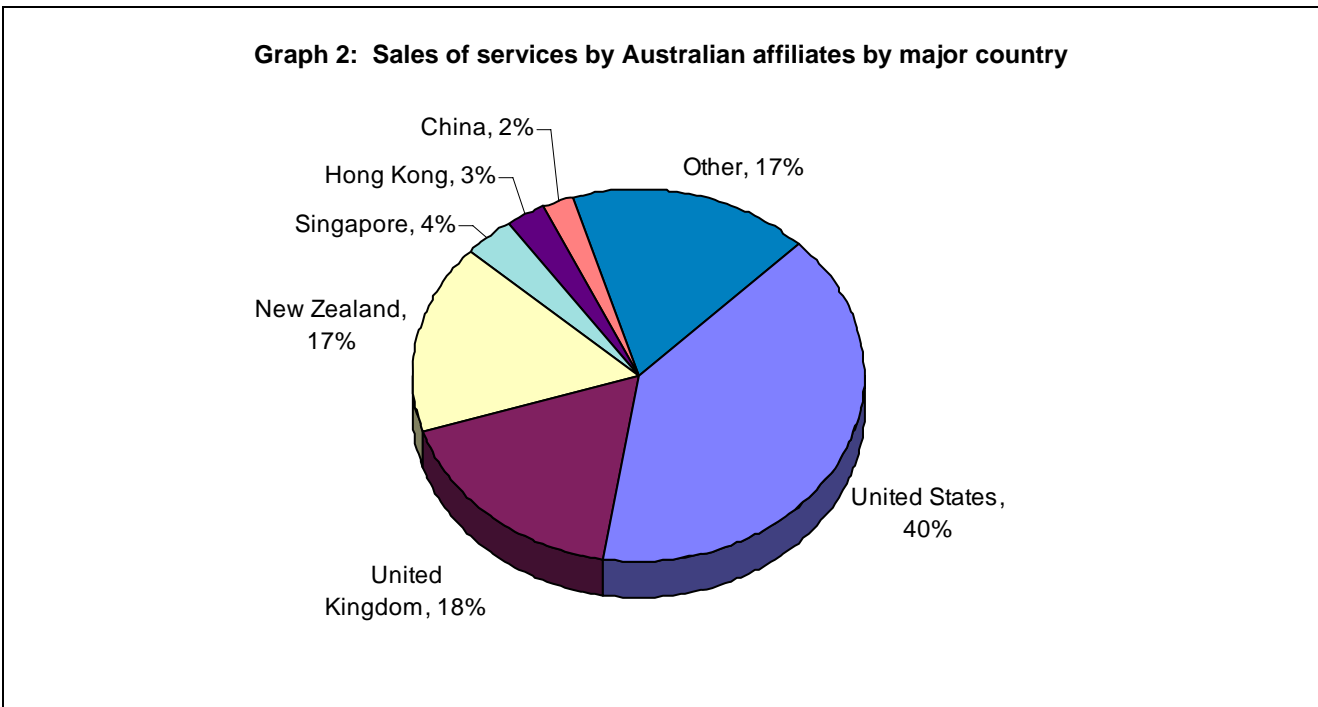
² The ABS Outwards Foreign Affiliates survey only included those foreign affiliates where the Australian parent company had 50% or more of the total equity capital, i.e. majority ownership.

³ Only the income earned by the foreign affiliate (profit or loss) and the investment flows and stocks are recorded in Australia's Balance of Payments and National Accounts Statistics.

By far the largest service provided by Australian foreign affiliates was *Financial and insurance services*, which was valued at \$25.4 billion (or 39 per cent of total services sales). Other major services provided included *Legal, accounting and management consulting services*, *Other business services*, *Architectural and engineering services*, and *Computing and information services*. A significant proportion of services sales could not be classified to a specific services category (\$32.4 billion), either because they were confidential or could not be separately identified.

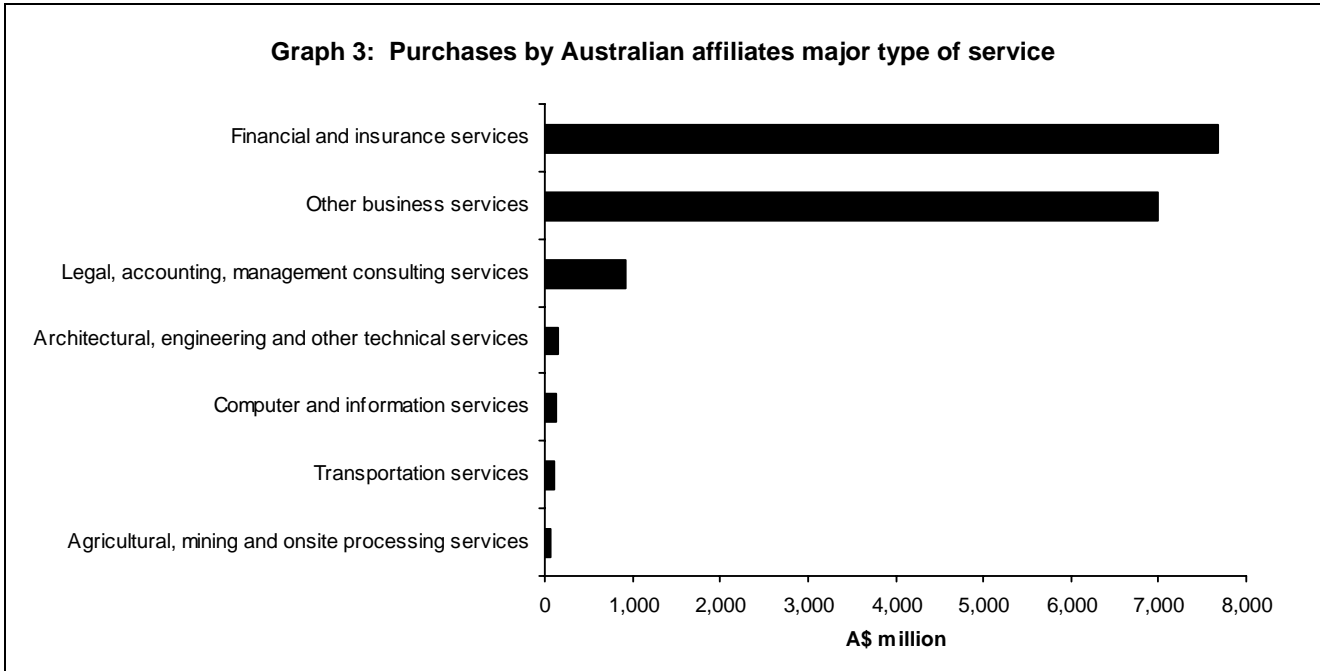


The United States was the largest market for sales from these affiliates, with sales of \$26.1 billion or 40 per cent of total sales. The United States was followed by the United Kingdom, with sales of \$11.4 billion (or 18 per cent of total sales) and New Zealand with \$10.8 billion (or 17 per cent of total sales). Other major markets included Singapore, Hong Kong, China, Indonesia and Canada.

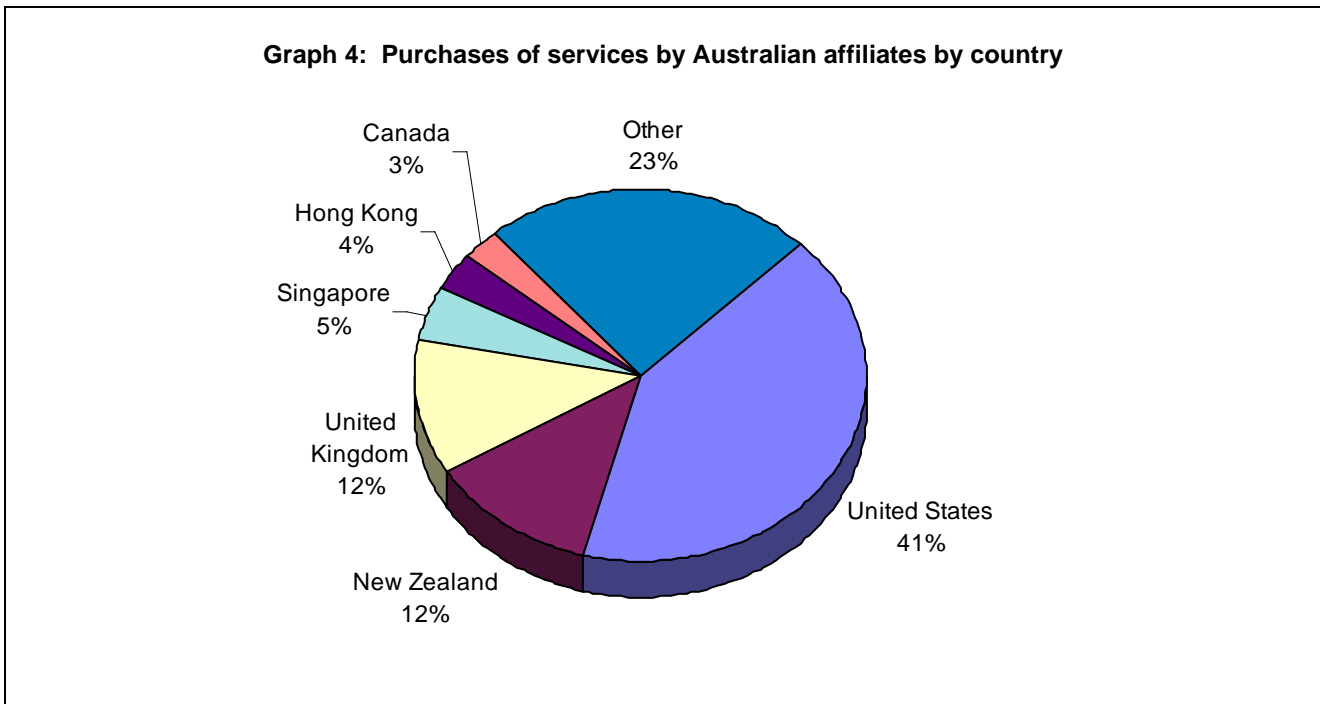


Purchases of services by Australian foreign affiliates

In 2002-03, purchases of services by Australian foreign affiliates totalled \$40.6 billion. Purchases from the host country (i.e. local purchases) accounted for 91 per cent of total purchases of services or \$37.0 billion. By far the largest service purchased by Australian foreign affiliates was *Financial and insurance services*, which was valued at \$7.7 billion (or 19% of total services purchases) followed closely by *Other business services*, which were valued at \$7.0 billion. As for sales, a very significant proportion of services purchased could not be classified to a specific services category (\$24.4 billion or 60 per cent of total services purchases), either because they were confidential or could not be separately identified.



The United States was the largest source of services for our affiliates abroad, with purchases of \$17.0 billion or 41 per cent of total purchases. The United States was followed by New Zealand, with purchases of \$5.0 billion (or 12 per cent of total purchases) and the United Kingdom with \$4.7 billion, (or 12 per cent of total purchases). Other major sources included Singapore, Hong Kong, Canada and Brazil.



Modes of supply

Barriers to services trade typically arise as regulatory barriers within the host economy and not as traditional tariff barriers as for merchandise goods. The General Agreement for Trade in Services (GATS) identifies four “modes of supply” for determining a country’s delivery of services to the world to facilitate classification and analysis of barriers to services trade. These modes of supply (including trade by foreign affiliates) have also been adopted by the United Nations (UN) and the OECD in their international statistical frameworks for services and globalization statistics.

As part of these international standards, the four modes of service supply are defined as:

- *Mode 1 - Cross border supply* – occurs when a service is delivered from a supplier to a consumer in their country of residence without either supplier or consumer moving into the country of the other.
- *Mode 2 - Consumption abroad* – occurs when consumers resident in their country move outside their home territory and consume services in another country, such as tourist activities.
- *Mode 3 - Commercial presence* (i.e. foreign affiliates trade) – occurs when a commercial presence abroad is established as a result of direct investment in the host country (i.e. a foreign affiliate is established) to supply services to consumers in their country of residence (i.e. local sales and purchases only)⁴.
- *Mode 4 - Presence of natural persons* – occurs when an individual has moved into the territory of the consumer to provide a service without becoming a resident of that country⁵.

Modes 1, 2 and 4 are recorded as exports and imports in balance of payments and national accounts statistics, mode 3 services are not.

The following table shows a summary of Australia’s trade in services by all modes of supply. Modes 1 and 4 are combined as the ABS has not made available a breakdown between these two modes of supply.

Provision of services by Australia (and its foreign affiliates) by mode of supply			
Mode of supply	2002-03 \$m	% share	
1 + 4	Cross border + Natural persons	17,041	18.5%
2	Consumption in Australia	15,452	16.8%
	Total exports (modes 1, 2 & 4)	32,493	35.4%
3	Commercial presence abroad	59,419	64.6%
All modes		91,912	
Purchases of services by Australia (and its foreign affiliates) by mode of supply			
Mode of supply	2002-03 \$m	% share	
1 + 4	Cross border + Natural persons	21,879	31.3%
2	Consumption abroad	11,012	15.8%
	Total imports (modes 1, 2 & 4)	32,891	47.1%
3	Commercial presence abroad	36,989	52.9%
All modes		69,880	

Source: ABS. Cat. No. 5495.0 + 5302.0

⁴ Exports and imports of Australian foreign affiliates to another country are not included as they would be picked up in the trade account of that country’s balance of payments statistics.

⁵ Mode 4 should included wages and salaries of employees of Australian businesses who provide the service abroad. However, wages and salaries of employees are not included in services trade in balance of payments statistics but are recorded in the income account of the balance of payments under the item *compensation of employees*.

Note regarding Australia's total trade in services by all modes of supply

The ABS has only published data on Australia's outward foreign affiliates trade at this stage. Therefore users should not make the mistake of calculating a balance based on the data as shown in the mode of supply table above (i.e. provision of services minus purchases of services by Australian companies and their affiliates - which indicates an Australian surplus of \$22 billion in 2002-03) as the data in this table only represents an asymmetrical view of the trade flows by an ownership view.

To calculate a trade balance on an ownership view of trade, it would be necessary for the ABS to also conduct a survey on Australia's inward foreign affiliates trade. The following table represents the data gaps that would need to be published so as to calculate an Australian balance using an ownership view of trade.

**Provision of services by Australia companies
by mode of supply**

Mode of supply	2002-03 \$m
1 + 4 Cross border + Natural persons	17,041
2 Consumption in Australia	15,452
Total exports (modes 1, 2 & 4)	32,493
3 Commercial presence abroad	59,419
3 Foreign commercial presence in Australia - Provision of services by Australian owned companies to foreign owned companies in Australia	not collected
All modes	not collected

**Purchases of services by Australia companies
by mode of supply**

Mode of supply	2002-03 \$m
1 + 4 Cross border + Natural persons	21,879
2 Consumption abroad	11,012
Total imports (modes 1, 2 & 4)	32,891
3 Commercial presence abroad	36,989
3 Foreign commercial presence in Australia - Purchases of services by Australian owned companies from foreign owned companies in Australia	not collected
All modes	not collected

Source: ABS. Cat. No. 5495.0 + 5302.0

This table clearly shows that the predominant means of delivering services overseas for many Australian service providers is through mode 3 (commercial presence). Local sales of services by our foreign affiliates accounting for 64 per cent of all modes of supply in 2002-03. Purchases of services by our foreign affiliates were also predominant. Their purchases accounted for 53 per cent of all purchases classified by modes of supply.

Further details on Australia's trade in services by all modes of supply

The following set of tables show Australia's trade in services by all modes of supply by selected services type and by selected country. The set of tables covers:

- Table A - Australian provision of services, by mode of supply, by type of service
- Table B - Australian purchases of services, by mode of supply, by type of service
- Table C - Australia's provision of services, by modes of supply, by major market
- Table D - Australia's purchases of services, by modes of supply, by major source

We hope that readers find this additional information useful in terms of getting to understand the total picture regarding Australia's provision and purchases of services in the global economy.

For more information on the results from the ABS Survey on Outward Foreign Affiliates Trade, please refer to the ABS publication *Australian Outward Foreign Affiliates Trade, 2002-03 (Cat. No. 5495.0)*.

Technical note to tables A, B, C, D

Modes 1 and 4:

These modes cover all exports and imports of services as recorded in Australia's balance of payments statistics, except for travel services.

Mode 2:

This mode covers all travel services (business, education and other personal).

Mode 3:

Mode 3 transactions should only include sales and purchases of services in the host economy (i.e. local sales and purchases) by the foreign affiliate. The ABS was only able to publish very limited details on Mode 3 services due to confidentiality constraints. However the ABS was able to provide more detail on both total sales and purchases of services by the Australian foreign affiliates. In both cases mode 3 transactions (i.e. local sales and purchases) accounted for over 91% of both total sales and purchases by the Australian foreign affiliates (the remaining 9% of sales and purchases were either exports/imports by the affiliates back to Australia, or to another foreign country). Therefore the following set of tables uses total sales/purchases of the affiliate as a close proxy for mode 3 services, where actual mode 3 detail is not available for some data items (refer to table footnotes for details).

Geographic group:

Africa was included with Europe due to the small number of foreign affiliates of Australian companies operating in Africa. If Africa had been published separately by the ABS then all the data would have been suppressed due to ABS confidentiality policy which does not permit the ABS to publish any data which would allow the identification of any reporting unit..

Table A: Australian provision of services, by mode of supply, by type of service, 2002-03

Services Activity	Mode 1+4	Mode 2	Total	Mode 3	All modes
	A\$m	A\$m	Exports A\$m	(c) A\$m	A\$m
Transportation services	7,467	0	7,467	760	8,227
Travel services	0	15,452	15,452	np	np
Communication services	1,082	0	1,082	np	np
Financial and insurance services	1,657	0	1,657	25,398	27,055
Computer and information services	1,091	0	1,091	796	1,887
Royalties and licence fees	618	0	618	105	723
Merchanting and other trade-related services	509	0	509	92	601
Operational leasing services	27	0	27	151	178
Legal, accounting, management consulting and public relations services	597	0	597	1,877	2,474
Advertising, market research and public opinion polling services	145	0	145	282	427
Architectural, engineering and other technical services	582	0	582	np	np
Agricultural, mining and onsite processing	107	0	107	1,119	1,119
Services between affiliated enterprises n.i.e.	1,025	0	1,025	664	771
Other business	360	0	360	np	np
Other (a) (b)	1,774	0	1,774	1,641	2,001
Total	17,041	15,452	32,493	32,398	52,313
Total	17,041	15,452	32,493	59,419	91,912

(a) includes confidential items (np). (b) Includes Other travel services; Construction services; Research and development services; Audio-visual and related services; Other personal, cultural and recreational services and Government services. (c) For breakdown of mode 3 data by selected services activity, total sales by affiliates has been used as a close proxy for actual mode 3 transactions.

Source: ABS. Cat. No. 5495.0 + ABS Cat. No. 5302.0

Table B: Australian purchases of services, by mode of supply, by type of service, 2002-03

Services Activity	Mode 1+4	Mode 2	Total	Mode 3	All modes
	A\$m	A\$m	Imports A\$m	(c) A\$m	A\$m
Transportation services	10,960	0	10,960	111	11,071
Travel services	0	11,012	11,012	2	11,014
Communication services	1,407	0	1,407	4	1,411
Financial and insurance services	1,441	0	1,441	7,680	9,121
Computer and information services	967	0	967	135	1,102
Royalties and licence fees	1,828	0	1,828	12	1,840
Merchanting and other trade-related services	369	0	369	np	np
Operational leasing services	955	0	955	np	np
Legal, accounting, management consulting and public relations services	351	0	351	927	1,278
Advertising, market research and public opinion polling services	153	0	153	137	290
Architectural, engineering and other technical services	334	0	334	149	483
Agricultural, mining and onsite processing	168	0	168	67	235
Services between affiliated enterprises n.i.e.	819	0	819	7	826
Other business	464	0	464	7,001	7,465
Other (a) (b)	1,663	0	1,663	24,386	27,373
Total	21,879	11,012	32,891	36,989	69,880

(a) includes confidential items (np). (b) Includes Construction services; Research and development services; Audio-visual and related services; Other personal, cultural and recreational services and Government services. (c) For breakdown of mode 3 data by selected services activity, total purchases by affiliates has been used as a close proxy for actual mode 3 transactions.

Source: ABS. Cat. No. 5495.0 + ABS Cat. No. 5302.0

Table C: Australia's provision of services, by mode of supply, by major market, 2002-03

Country	Modes 1+4	Mode 2	Total Exports	Mode 3 (a) (b)	All modes	Mode 3 as a share of all modes
	A\$m	A\$m	A\$m	A\$m	A\$m	%
Europe & Africa						
France	206	178	384	152	536	28.4
Germany	297	464	761	492	1,253	39.3
Italy	93	158	251	85	336	25.3
Netherlands	101	182	283	453	736	61.5
South Africa	125	111	236	461	697	66.1
Spain	na	na	na	21	na	..
United Kingdom	1,766	1,966	3,732	11,426	15,158	75.4
Other	986	1,206	2,192	1,373	3,565	38.5
Total	3,573	4,265	7,838	13,903	21,741	63.9
Asia-Pacific						
China	242	735	977	1,456	2,433	59.8
Fiji	61	70	131	303	434	69.8
Hong Kong, SAR of China	717	602	1,319	1,797	3,116	57.7
Indonesia	274	698	972	1,440	2,412	59.7
Japan	1,462	1,907	3,369	451	3,820	11.8
Malaysia	256	633	889	206	1,095	18.8
New Zealand	1,055	1,248	2,303	10,784	13,087	82.4
Papua New Guinea	208	81	289	294	583	50.4
Philippines	61	68	129	108	237	45.6
Singapore	1,363	803	2,166	2,451	4,617	53.1
Taiwan	44	308	352	84	436	19.3
Thailand	129	350	479	196	675	29.0
Vietnam	88	112	200	36	236	15.3
Other	1,289	1,658	2,947	447	3,394	13.2
Total	7,249	9,273	16,522	18,762	35,284	53.2
Americas						
Brazil	na	na	na	778	na	..
Canada	90	311	401	1,288	1,689	76.3
Chile	3	7	10	112	122	91.8
Mexico	3	11	14	204	218	93.6
United States	3,389	1,385	4,774	26,117	30,891	84.5
Other	44	159	203	2,266	2,469	91.8
Total	3,529	1,873	5,402	26,754	32,156	83.2
Unallocated	2,691	40	2,731	0	2,731	..
Total	17,041	15,452	32,493	59,419	91,912	64.6

(a) For individual country data, total sales by affiliates has been used as a close proxy for actual mode 3.

(b) For country groups and totals, actual mode 3 transactions are shown.

Source: ABS. Cat. No. 5495.0 + ABS Regional Services data

Table D: Australia's purchases of services, by mode of supply, by major source, 2002-03

Country	Modes 1+4	Mode 2	Total Imports	Mode 3 (a) (b)	All modes	Mode 3 as a share of all modes
	A\$m	A\$m	A\$m	A\$m	A\$m	%
Europe & Africa						
France	218	320	538	79	617	12.8
Germany	970	205	1,175	640	1,815	35.3
Italy	39	407	446	308	754	40.8
Netherlands	466	92	558	788	1,346	58.5
South Africa	102	189	291	59	350	16.9
Spain	na	na	na	4	na	..
United Kingdom	2,041	1,647	3,689	4,678	8,367	55.9
Other	1,612	1,390	3,001	584	3,585	16.3
Total	5,448	4,250	9,698	5,661	15,359	36.9
Asia-Pacific						
China	573	350	923	778	1,701	45.7
Fiji	170	215	385	203	588	34.5
Hong Kong, SAR of China	1,217	447	1,664	1,423	3,087	46.1
Indonesia	309	214	523	833	1,356	61.4
Japan	1,562	326	1,888	613	2,501	24.5
Malaysia	434	258	692	97	789	12.3
New Zealand	895	913	1,809	4,983	6,792	73.4
Papua New Guinea	64	105	169	214	383	55.9
Philippines	66	115	181	88	269	32.7
Singapore	2,128	322	2,450	1,911	4,361	43.8
Taiwan	78	95	173	59	232	25.4
Thailand	330	482	812	125	937	13.3
Vietnam	70	266	336	56	392	14.3
Other	1,715	743	2,458	985	3,443	28.6
Total	9,612	4,852	14,464	10,659	25,123	42.4
Americas						
Brazil	na	na	na	870	na	..
Canada	145	267	412	1,112	1,524	73.0
Chile	28	42	70	126	196	64.3
Mexico	3	36	39	194	233	83.3
United States	4,752	1,390	6,141	16,954	23,095	73.4
Other	295	143	439	1,853	2,292	80.9
Total	5,223	1,878	7,101	20,669	27,770	74.4
Unallocated	1,596	31	1,627	0	1,627	..
Total	21,879	11,012	32,891	36,989	69,880	52.9

(a) For individual country data, total purchases by affiliates has been used as a close proxy for actual mode 3.

(b) For country groups and totals, actual mode 3 transactions are shown.

Source: ABS. Cat. No. 5495.0 + ABS Regional Services data