

# IMPORTANCE OF AUSTRALIAN SERVICES INDUSTRIES TO THE AUSTRALIAN EXPORT SECTOR

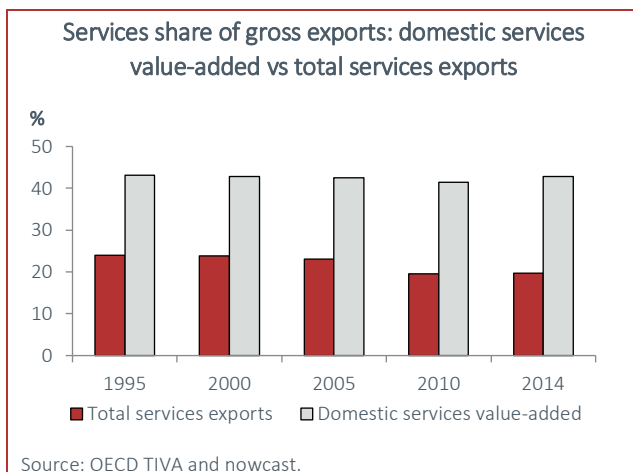
## Introduction

With services making up around 75 per cent of GDP but only around 20 per cent of exports, some commentators imply that Australia's exports of services are much less than they could be<sup>1</sup>.

Although Australia's geographic isolation makes it harder to deliver services compared to countries that border other nations, the gross flows measure still greatly underestimates the contribution of Australian services industries to Australian exports.

Because many services are not traded directly, services contributions to exports are more fully captured on a value-added basis. For instance land transport and electricity services used up in the mining and export of resources are reflected in trade on a value added basis. On a gross exports basis these values are inherent in the value of the resource and are not separately identified.

The chart below shows that in 2014 (the latest data available from the OECD), services exports accounted for only 20 per cent of gross exports<sup>2</sup>. However, when measured on a Trade in Value Added (TIVA) basis, the contribution of domestic services to gross exports of goods and services amounted to over 40 per cent. This has remained relatively constant between 1995 and 2014.



To understand the full value of services provided abroad by Australian residents, those delivered by foreign affiliates abroad must also be taken into account. Neither the simple gross flows measure nor the trade in value-add measure capture services delivered in this manner. In many cases it is often necessary (or preferable) to set up an Australian affiliate in a host country to deliver services (e.g. construction services). The Australian Bureau of Statistics has found that up to two-thirds of Australia's services provided to non-residents are supplied in this manner<sup>3</sup>.

## Conclusion

Simply analysing gross services exports' contribution to gross exports overall significantly underestimates the importance of Australia's services industries to the Australian export sector. Using the value-added measure it can be shown that over 40 per cent of the value of exports overall are accounted for by Australia's domestic services industries. In addition, around two-thirds of Australian services provided to the world are delivered by Australian foreign affiliates abroad, not via direct export.

<sup>1</sup> Services industries' proportion of GDP includes Utilities, Construction and other services industries at basic prices but excludes ownership of dwellings.

<sup>2</sup> Services exports' share of total exports has risen since 2014, reaching nearly 22 per cent in the latest information available (2017).

<sup>3</sup> 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](#).