



THE HON DR CRAIG EMERSON MP
MINISTER FOR TRADE

**Transcript of Trade Minister, Dr Craig Emerson's, panel presentation to the
US Coalition of Service Industries Services Summit
JW Marriott Hotel, Washington DC
22 September 2010**

Also appearing with Dr Emerson:

Dr Fred Bergsten, Peterson Institute (moderator)
Hon. Anand Sharma, Minister of Commerce and Industry, India
Hon. Bruno Ferrari, Secretary of the Economy, Mexico
Lord Brittan, Trade Adviser to the Prime Minister, United Kingdom

Well thank you, Lord Brittan. If Minister Sharma is the veteran of this group then I'm certainly the new kid on the block. It's great to be here to be a participant in what I consider – and Australia considers – to be a very important gathering on the service economy and on the role of services in the Doha Round.

When I was in my previous employment as a Minister in the Labor Government – that is up until eight days ago when I was sworn in as the Trade Minister – I was amongst other things Minister for the Service Economy – which is quite an innovation in Australian history. I think I was the first ever Minister for the Service Economy. But it was a testament to the priority that the Government attaches to the service economy as a component of our overall economic activity and prosperity. In fact, when I was doing economics many years ago at university – I think Ron Kirk referred to 'invisibles' – that the service industries were regarded then as invisible. I don't think that really does credit to the service industries around the world. They are far more important than that.

And associated with that notion of the services industries being invisible was this suggestion that really, the service industries are what's left over – the residual after we take into account manufacturing and primary industries. Well I say: some residual! In Australia, the service economy contributes 85 per cent of our employment, 75 per cent of our GDP – but I think, as Bruno was saying, a much lower proportion of our exports, 22% in our case.

Now, there is no magic number for the service industries in overall exports, but you can see that there is a very large gap between its contribution to the domestic economy and the contribution to Australia's overseas trade. And I think it exposes as a myth the idea that the Australian economy is a mining economy, because the service economy for so long has been such a dominant component of our overall economic activity. But I'll add this: perhaps when I was doing economics, again – and it seems like a long time ago, Fred – we thought of services as very discrete. There was manufacturing, there were primary industries: mining and agriculture, fishing and forestry. And then there were separate activities for services. I think in the 21st century it is evident that services are embodied in everything. That is *in* manufacturing activity, *in* mining activity.

Again, I speak from Australia's perspective: one of our growing exports is engineering, associated with the expertise that we've learned in developing mines. Now this is just one example. Manufacturing these days is only really viable if it contains bundles of services. Obviously after-sales services, but also the logistics that go with manufacturing – you referred to just-in-time inventories in manufacturing, for example. A manufacturing activity can't be viable in tough global markets without these bundles of services to boost their competitiveness by lowering their costs. And I think this is the new world in which we should be considering the service economy – not as some sort of residual, as might have been considered twenty-five years ago – but important in its own right, dominant in so many economies in its own right, and an integral part of the competitiveness of primary industries and manufacturing industries.

There is a huge opportunity – and perhaps it's true that I'm just an irrepressible optimist – but there is a huge opportunity on the part of the service industries to do the world a great service, and that is to be the basis for kick-starting the stalled Doha Round. There is now some work that you have done, Fred, that suggests that the overall global benefit from the deal that was on the table in 2008, while worth having, is not as big as we could reasonably expect. And here we have an opportunity to use the service industries, trade in services, and the liberalisation of trade in services, to kick-start that stalled Round – which would do everyone around the world a favour. And that's why I have been heartened by the discussions last night and also with Ambassador Ron Kirk. He seems to be very committed to using this new opportunity of bringing in services as an integral part of the negotiations, rather than the bit that's still to be done, that's left over – because it makes it a better deal for everyone. It makes it a better deal domestically here in the United States, and it brings services out of the shade, and into the light, into the sunlight. I think that is an enormous opportunity for everyone here, for everyone.

There is a complexity, of course, and that is when we are discussing the liberalisation of trade in manufacturing, we're talking essentially about tariff barriers and before those, quantitative restrictions – border restrictions. But in services, it is behind-the-border restrictions that do all of the protective work. And there was also a suggestion during my short time here in Washington that we really need to engage not just with trade ministers and the trade negotiators, but with the regulators who are responsible for the development and administration of these restrictions on trade in services, behind the borders. Because we could have every trade minister coming to the table with all the goodwill in the world, but going home to find that they can't do much because the regulators, those ministers and those authorities who are associated with the restrictive regulations, have not been fully engaged and think, 'Well that's a very elegant decision we've come up with, but we're not going to implement it.' I think that's fundamentally important in the way that we approach this new opportunity in relation to the elevation of services in the Doha Round resolution.

And to that point, there have been some suggestions to manage this because you can imagine that in such a dominant section of the economy how complex it would be to start or to continue negotiations around every conceivable service. It's almost infinite. So I think the concept of clustering that the United States, Australia, and others have suggested may be a way of organising thought and organising the request/offer negotiations, and organising a good outcome on services.

The clusters that I'm aware of are logistics; we've already referred to those. America has put up information and communications technology, and I notice there are some companies represented here today, obviously professional services, and Minister Sharma was talking about some of those, and environmental services. But they are just a few of the clusters that we could be working through in order to achieve a reasonable outcome here.

Now Fred, you've released a study. I see your study and raise you a study, because the Australian Government has also commissioned one, and I have a copy here of the summary report, and I will take you through the very bare bones of that summary. The report was prepared by the Centre for International Economics, and it's an independent assessment of the potential economic gains arising from services trade liberalisation. The simplifying assumption here is that it all happens next year; that we get a liberalised outcome next year. Now that's probably not going to happen, but in the economic situation this is what we do. We simplify the analysis so that we can get at least some indication of the potential gains. And the period under consideration is from 2011 to 2025. The estimates from this modelling are that in present-value terms, the cumulative gains under that period

to gross domestic product are worth, for developed countries about 1.7 trillion Australian dollars, and based on the exchange rate that puts us close to about 1.7 trillion US dollars. I think we're at about 95 cents at the moment. But anyway, 1.7 – let's say 1.5 trillion dollars for developed countries. But very interestingly, 3.6 trillion for developing countries, which makes the point that the gains from liberalisation of trade in services look to be substantially bigger for the developing world than for the developed world, notwithstanding that services are probably a larger proportion of the economy in the developed world. If we annualise those gains, they are around 116 billion Australian dollars over that period for the developed world, and again 238 billion for developing countries – so a substantially larger number. And translate that now into contributions and increases in gross domestic product for the developed world – about 0.2% of GDP, well worth having. And for the developing world 0.9% of GDP – and that is a very substantial number. So we've got copies of this summary document just outside, Fred, and I'll finish with these observations.

I'd like to thank everyone for coming along, and lending momentum to the elevation of trade in services, the liberalisation of trade in services as a way of kick-starting the Doha Round. In Australia, we have the Australian Services Roundtable. I understand Andrew McCredie and Jane Drake-Brockman are here and I had a lot to do with them as the Minister for the Service Economy.

And the final point that I'd like to pick up is the one that Lord Brittan made. And that is, there is an issue here about fatigue in the negotiations. And while not everything has to happen tomorrow, or next week, here is a great opportunity to re-energise those negotiations, to use the service economy and liberalisation of trade in services as the kick-start for those to resume negotiations. As I said, I'm an irrepressible optimist, and I can think of no better way than using trade in services and the liberalisation of trade in services as a way of getting over that fatigue and re-energising the Doha Round and multilateral trade negotiations. Thank you.