

ICT services – Trade opportunities in Australia’s North Asian FTAs

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Summary

- 1. What do FTAs do?**
- 2. Do FTAs matter?**
- 3. Opportunities for business – FTAs with Korea (KAFTA), Japan (JAEPA) and China (ChAFTA)**
- 4. Securing opportunities – how to benefit**

1. What FTAs do



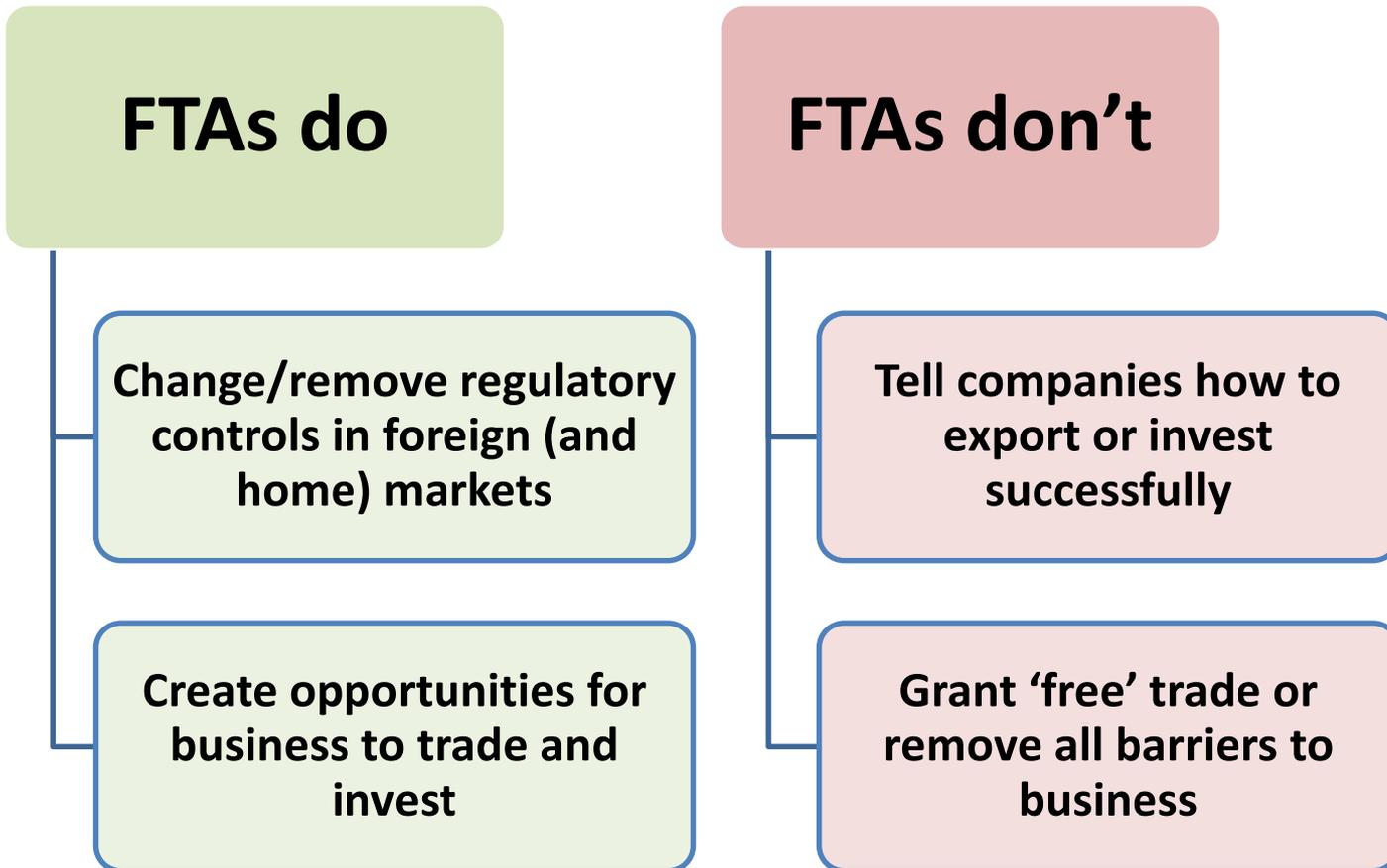
More than just tariffs

- 'New' FTAs regulate services and investment
 - cover a broad range of economic activity
- They can do more than open markets
 - Improve the business operating environment
 - Serve as a catalyst for market reforms in other countries

Benefits vary. They depend on what is agreed.

Regulation of services and investment

Legal commitments for regulation



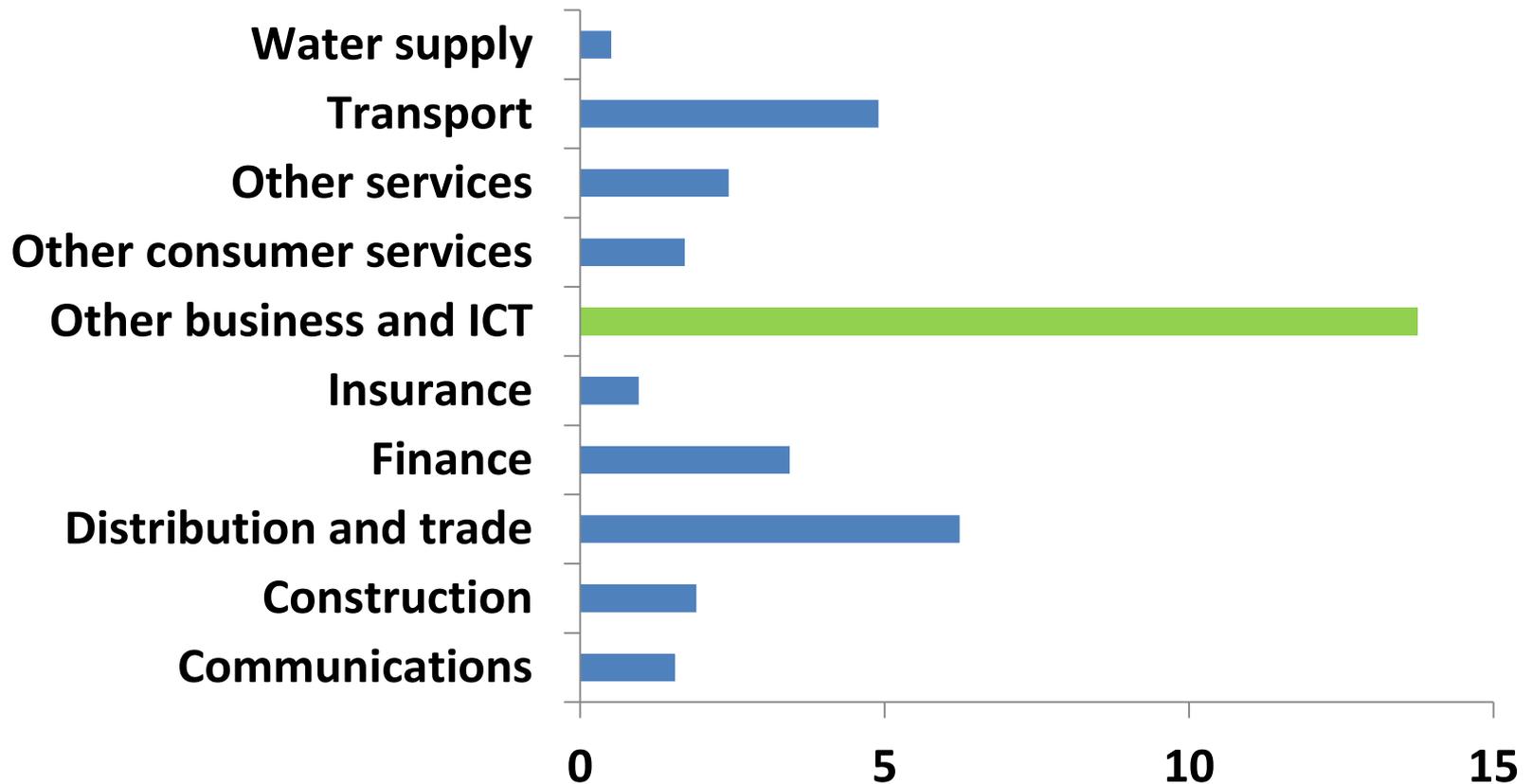
ICT services and trade

- The ICT sector trades in both goods and services
- Covers a wide range of services activities - telecomms; computer programming; data processing, hosting, software, wholesaling and trading ICT products, content and media services
- Value in trade is understated - ICT services are 'embodied' in traded goods and services
- Provides a platform for growing trade – lower costs, support GVCs, facilitate innovation and growth



ICT services are embodied in most traded goods and services

Value added contribution of ICT services to all Australian exports (%) 2011



2. Why FTAs matter



ICT - an important Australian industry

- Growing services exports
 - 14.3%- more than double av. growth for all services
- Major employer
 - 2.5 million, or 22% workforce
- Contributor to broader economic activity
 - \$120b, or 4.9% GVA, larger than other sectors



Open services matter

- Services are the next driver of growth in Asian Pacific economies
 - 50% world trade (value add basis)
 - Critical role for competitiveness and growth
- But barriers are still high, especially in developing countries
 - Very few commitments to liberalize services in FTAs
 - Costs are 2-3 times higher than for trade in goods
 - Rated top impediment to ability to trade (PECC report)

Investment is a key driver of global growth

- Investment is driving greater economic activity
 - FDI flows generally growing at faster rate than trade
- Crucial for digital development
 - Importance of digital MNEs in international production is increasing rapidly

Australia depends on foreign investment to expand its ICT sector



North Asia is important

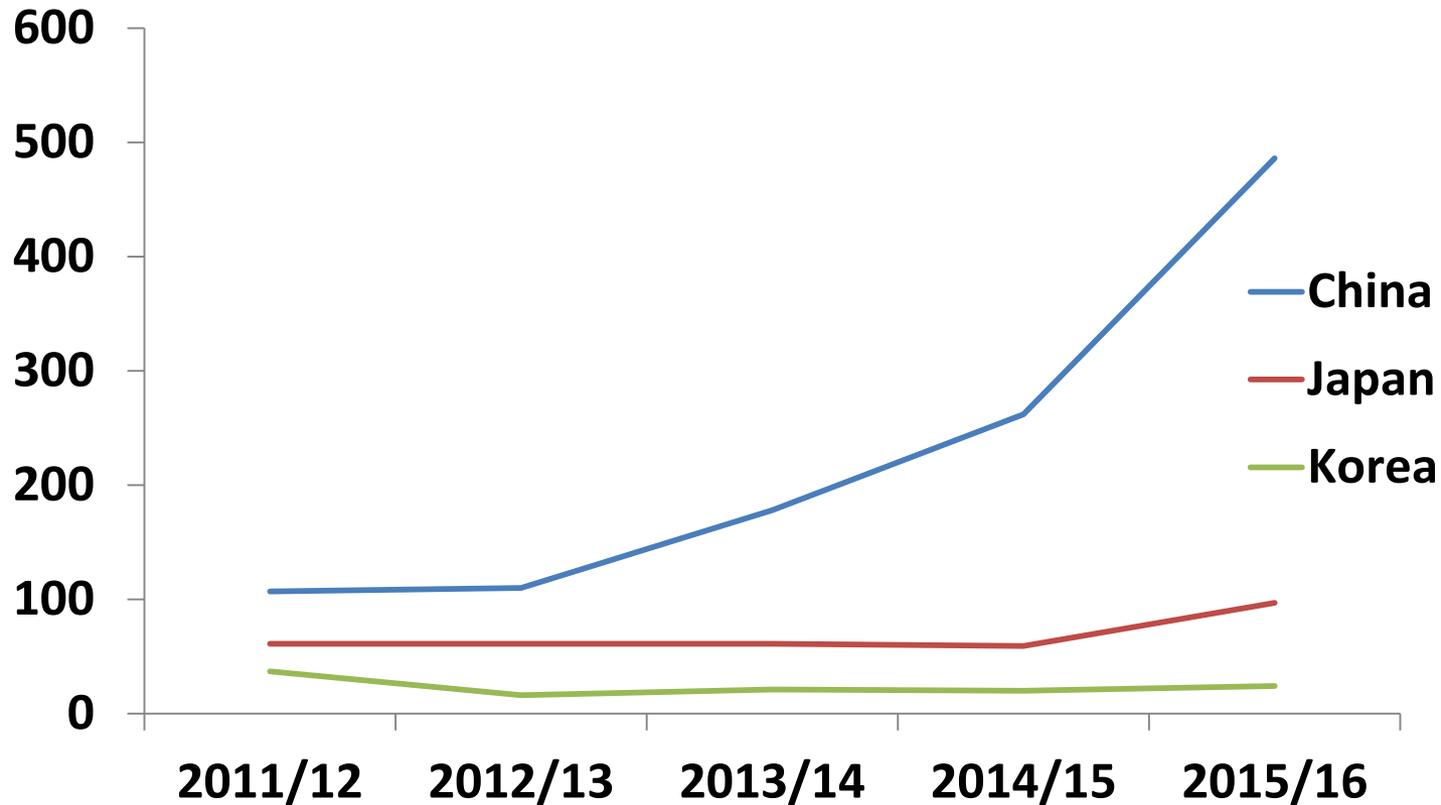
Commercial opportunities for Australian business

- Growth in ICT exports to China (85%) and to Japan (64%) since conclusion of FTAs
- Rapid growth in services exports to Japan (over 100%) and China (38%)
- ICT services growth to North Asia faster than to major markets (EU, US, NZ 10-30%)



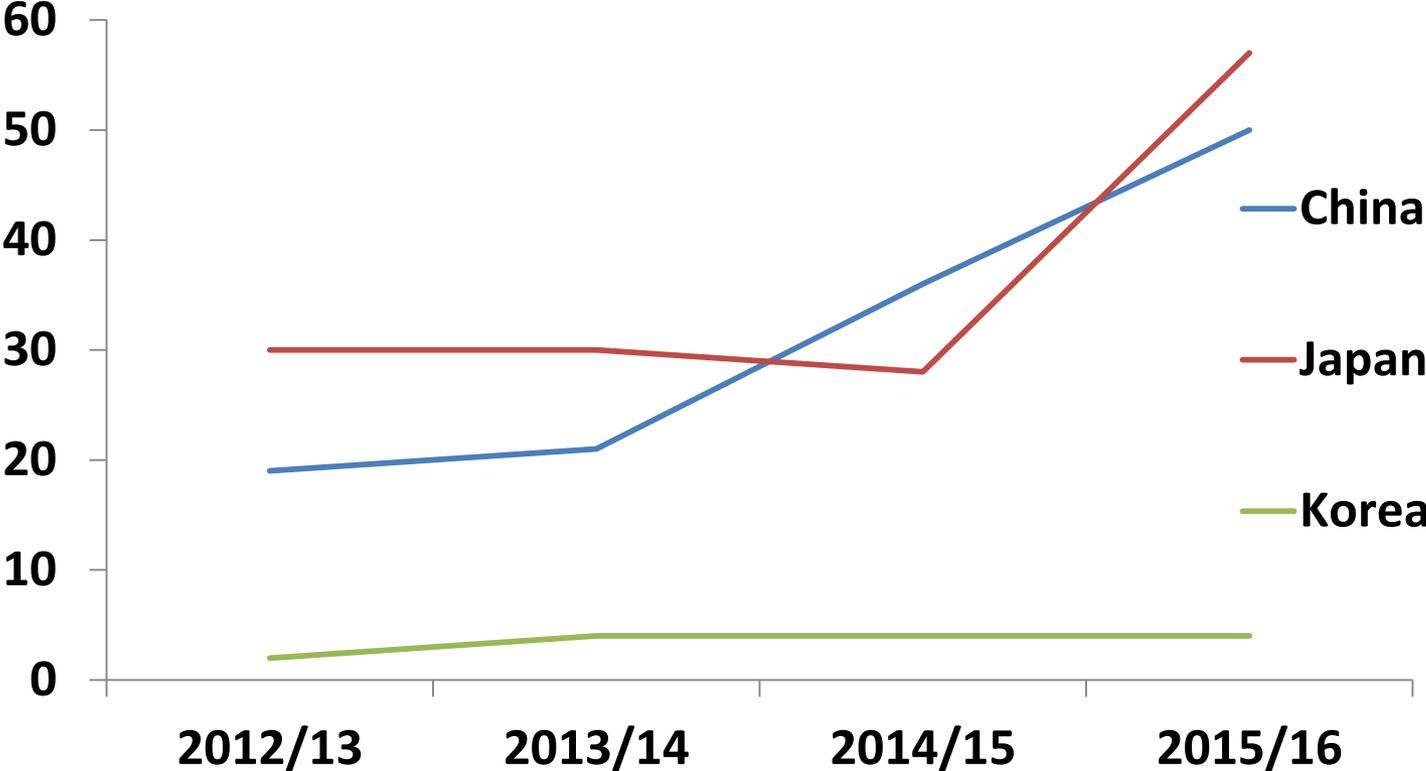
ICT exports to North Asia are growing

Australia's ICT exports (goods and services) to North Asian FTA partners (AUDm)



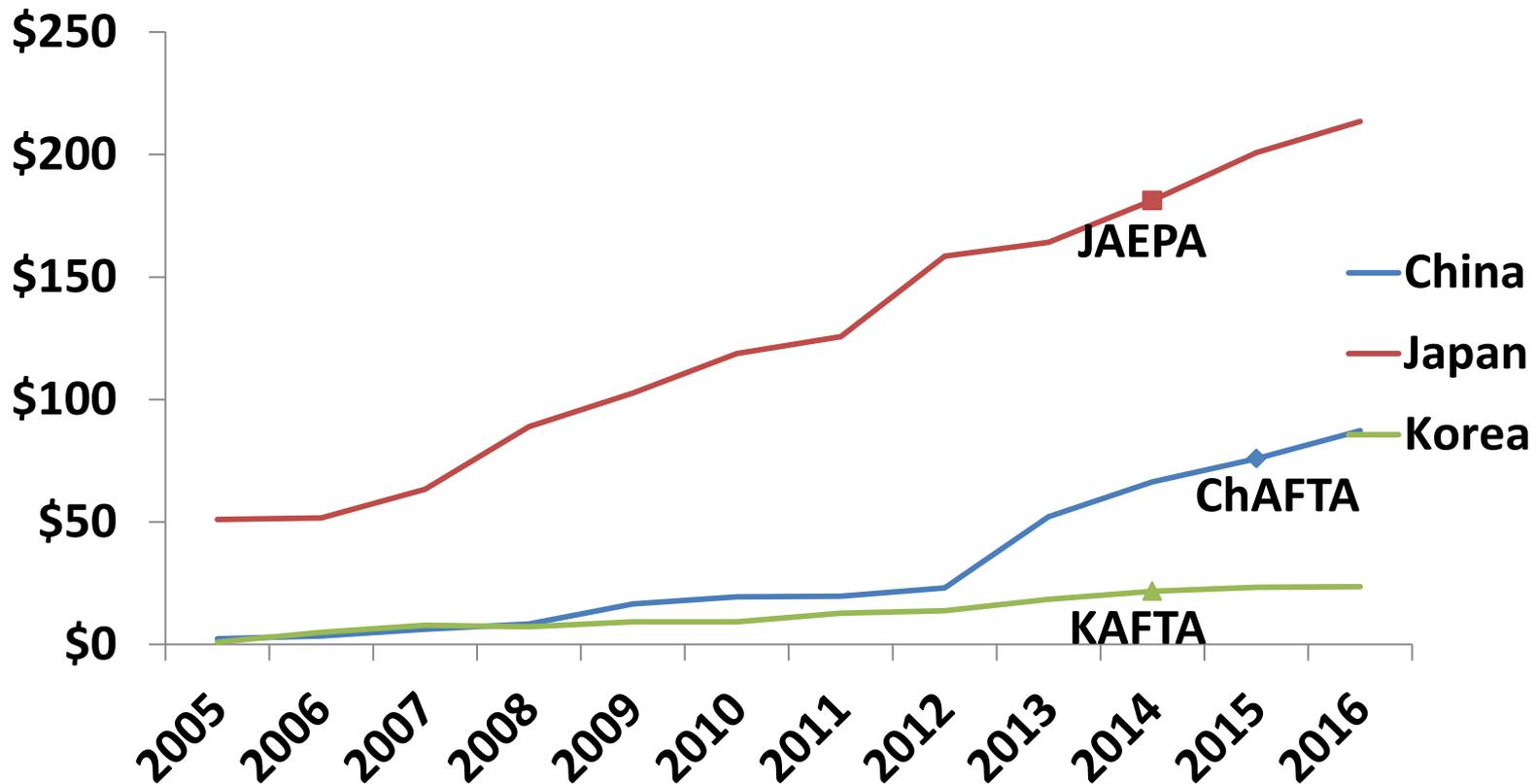
Growing services exports to Japan and China

Australia's ICT services exports to North Asian FTA partners (AUDm)



Investment from North Asia is increasing

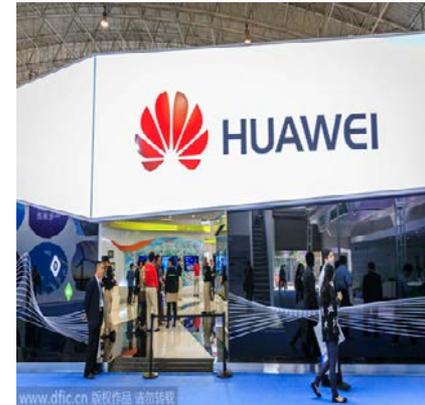
Stock of investment in Australia from China, Japan, Korea, 2005-2016 (AUDm).



Policy agendas create growth opportunities

China, Japan, Korea all understand their economies need reform

- TPP and bilateral FTAs, particularly with US have provided justification for domestic reforms
- China has triggered review of an APEC-wide FTA
- China's domestic policy is focused on reorienting the economy toward services and technology



3. Opportunities for business – FTAs with Korea, Japan and China

4 things FTAs can do (over time):

1. Deliver commercial opportunities

- Make it easier to access or invest in foreign markets (market access)

2. Improve the business operating environment

- Positively alter the regulatory landscape ('beyond the border')

3. Expand investment

- Enhance security of Australian investment in FTA markets, encourage investment in Australia

4. Promote economic reform

- Support more open and competitive services in the region ('standard setting')

i. Deliver commercial opportunities

Direct benefits from greater market access

New rights to establish and supply services

- Provide VA telecoms, communication services, call centre services in SHFTZ; software implementation, R&D services in China

Greater freedom to invest

- Own 100% voting shares in facilities based telecoms in Korea

Equivalent treatment to national providers

- Improve conditions for approval and distribution of Aus audiovisual co- production arrangements in Korea

Indirect benefits from expanded trade

Greater demand for services as a result of expanded trade activity

- Leverage FTAs to expand services to traders and investors

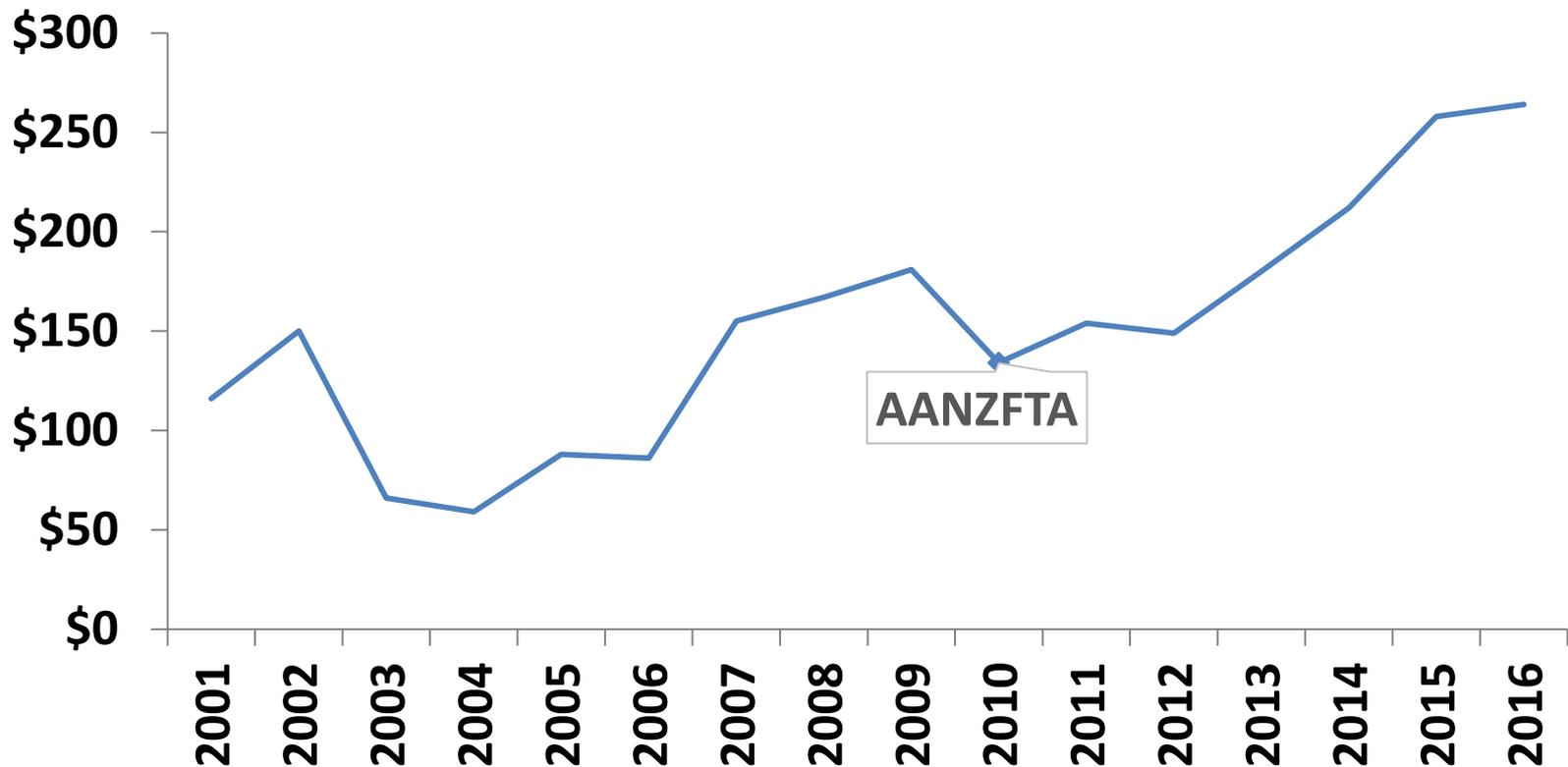
Evidence of expanded trade

FTAs have coincided with rising cross border services exports

- Accelerating ICT services exports to ASEAN following AANZFTA
- Rising ICT exports to North Asia, but still early days

Increasing ICT services exports to ASEAN

Australia's cross-border ICT services exports to ASEAN member states (AUDm)



iii. Improve the business operating environment

Positively alter the regulatory landscape

Transparency of licensing and registration

- Provide advance notice and consultations with industry on regulatory decisions for telecoms licensing in China

Freedom of data transfer

- Accord freedom of international payments and transfers for transactions relating to services in Korea, Japan

Treatment of e-commerce

- China to provide publication of laws and regulations, notification of changes

Ease movement of people and skills across borders

Temporary entry
to FTA markets

- Better access commitments for services providers and spouses, dependents
- Entry for qualified ICT professionals in China

Access for lower
skilled workers to
Aus

- Limited access for Chinese nationals (457 visas, IFAs)
- Aus waives labour market testing for Japan nationals

Enhance protection of intellectual property rights

Eg; In ChAFTA

➤ China agreed to make IP databases publicly available on the internet

➤ A framework is established to consider IP rights and issues of interest to private stakeholders at the request of a party



iii. Expand investment

Enhance legal protection of Australian investment abroad

- Australian investments in FTA markets receive greater legal protections (eg: from expropriation)
- China to improve on investment commitments over time

Outward FDI in ICT is small, but growing



Encourage foreign investment in Australia

- Direct investments in Australia from North Asia will become more attractive
 - FIRB screening threshold raised from \$252 million to \$1,094 billion (non sensitive sectors)
 - Equivalent to treatment given to other FTA partners

Enhance perceptions of Aus as an investment destination – ‘head turn effect’

vi. Serve as vehicles for economic reform

Set standards for more open services markets through binding legal standards

- Longer term benefits from more open services markets in the region
- Important in time of increased protectionism and uncertainty in global trade

4. Securing opportunities – how to benefit?

How to benefit?

- Gains are realised over time
 - New agreements, time needed to factor in to investment decisions
- Benefits of FTAs are difficult to measure and quantify
 - Gains are dynamic, economy wide
- Other 'non FTA' issues impact on business
 - Eg: cultural, language, other regulations



What can FTAs do?

Improve access
outcomes over time

- Built in mechanisms to support greater liberalisation in future
- Reviews – SAFTA, ChAFTA

Establish a platform
to address barriers

- Committees to bring regulators together for dialogue, address specific concerns
- Cooperation agendas (eg: electronic commerce)

Spread the benefits
of liberalisation

- MFN clauses -receive the benefits of subsequent liberalisation by Korea and Japan (and ICT services in China)

Over to business....

- Governments negotiate FTAs. Business trades and invests
- Realisation of FTA opportunities require more than legal commitments:
 - Sound business strategy
 - Good understanding of the market
 - Supportive policy environment



Thank you



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