



New Zealand Chambers of Commerce Inc
Submission to
The Productivity Commission
Boosting Productivity in the Services Sector
May 2013

Introduction

The New Zealand Chambers of Commerce (Inc), NZCCI, is the umbrella organisation serving the interests of 29 Chambers of Commerce nationwide. These, in turn, represent over 20,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand.

NZCCI is grateful for the opportunity to make these brief comments on the Issues Paper (the paper) released by the Productivity Commission, *Boosting Productivity in the Services Sector* as the first part of its inquiry into the services sector.

Rather than answer the list of questions proposed in the paper, this submission makes some brief observations relevant to the services sectors from a business perspective that we hope are of assistance.

This is a very important inquiry. We are very pleased that the Productivity Commission is focused on the importance of the services sector and the contribution it can make to New Zealand economic growth. Improving productivity is key to the growing the contribution of services to the economy.

The Issues Paper is an excellent starting point in setting out the issues, which in our understanding hasn't been done before by government in this form. We look forward to following the work of the Commission and submitting on the next stages of the Inquiry and in this regard would like to be recorded as a 'registered participant.'

Submission

NZCCI has long been an advocate for the importance of the services sector. Approximately 70% of our business members, employing 74% of the workforce, are employed in the services sector which is broadly representative of business overall in New Zealand.

We have close links to the Australian Services Roundtable which is the peak business body for the Australian services industries. The Wellington Employers'

Chamber of Commerce is a member of the Global Services Coalition which is a group of like-minded industry organisations whose members have an interest in the liberalisation of the trade in services. We are happy to assist the Productivity Commission with introductions to these and their constituent organisations if helpful.

The range of industries that come under the service sector is wide in terms of skill level and other characteristics and the makeup of the services sector varies across the regions. In some parts of the country tourism is the predominant sector, others it will be professional services. The chambers of commerce across the country may be able to provide the inquiry with specific insights if required.

We agree with the comments in the Paper on page 7 and elsewhere about the misconceptions of the services sector amongst the general public particularly that the sector is low skilled and somehow inferior to manufacturing and agricultural sector (i.e. "it is not a productive sector because nothing is being produced". The services sector incorporates the knowledge economy (particularly education, science and professional services) more than any other sector.

This limited understanding does not seem to be the case in other countries where the sector is held in high regard, and acknowledged for its contribution. The government has a role in helping turn these misconceptions around.

Until recently the services sector had also been somewhat neglected by government in our view. This was particularly the case in the area of services exports. It is essential that policy makers do not overlook the importance of services given the sector's size (70% of GDP) and its potential for increased contribution to economic growth. We are pleased that the work of the commission can be expected to raise the profile of the service sector amongst policy makers and the public.

Export of Services

There is real potential to expand the export of services from New Zealand.

Firstly, as stated in the document, New Zealand services exports are underrepresented relative to the size of the services economy and also relative to other similar countries' services exports.

The services sector makes up 70% of New Zealand's GDP but only 25% of its exports¹. The 70% contribution of the services sector is comparable to service sectors in other developed countries (e.g. 68% for OECD average), yet the contribution of services *exports* to GDP (excluding travel and transport) is significantly lower than other developed countries' (around 1.8% of GDP for New Zealand which is half as much as the OECD average).

The fact that many services can be exported electronically can make a significant contribution to addressing the tyranny of distance New Zealand faces i.e. the

¹ We note the recent OECD work on value added trade emphasises the importance of services and shows that accounting for the value added by services in the production of goods, the service sector contributes a much higher share of New Zealand's exports (estimated to be 46% for NZ).

disadvantage from being far from its markets. While tourism and international education do face this disadvantage, these sectors have much growth potential.

The growth in ICT is particularly important for New Zealand in relation to services exports. It is most significant that 86% of New Zealand's commercial services exports (including information technology, engineering, royalties, management fees, and other business services such as accounting and legal services) are exported by phone, internet or email (mode 1 services). It is these sectors becoming more internationally focussed where much of the growth potential lies.

There are many other service industries with potential for export. Because of our agricultural expertise New Zealand has a lot of potential in the exporting of agricultural and biotechnology services.

New Zealand has made strides in exporting education services to overseas students here in New Zealand but what about medical services? The value of global medical tourism is US\$100 million and rising fast. Deloitte estimates that as many as 1.6 million Americans could be travelling for medical tourism annually.

Government has a role in helping service sector businesses become more aware of opportunities to think about exporting their 'products' and a role in promoting New Zealand as a destination for international students, tourism and working holidays.

The government's trade policy agenda in both the negotiation of free trade agreements and in the WTO multilateral negotiation is also crucial. NZCCI has long pushed for the services sector to become more prominent in these across all modes of supply.

While we acknowledge the on-going importance of agriculture and manufacturing exports to the New Zealand economy, we think there needs to be more emphasis placed on achieving high quality trade agreements in services too. The service coverage in the China and ASEAN FTAs was pleasing but liberalisation of trade in services still lags behind that of other sectors and activities.

In such negotiations, as well as removing barriers to export, New Zealand negotiators will focus on behind the border barriers including domestic regulations.

In terms of multilateral negotiations, it has been said that services trade liberalisation could result in global welfare gains more than double the potential gain from liberalisation of barriers to trade in industrial goods and over 30 times the projected gains from liberalisation of global agricultural trade.

So while the Doha Round of negotiations has foundered primarily on agriculture issues, it is services where WTO members have the most to gain and as well as being beneficial in themselves services liberalisation has the potential to break the current impasse and therefore warrant more attention from countries like New Zealand.

Statistics and Definition of Services

As stated in the document there is a need for better statistics to measure the performance of the services sector. We are pleased with the recent increases in government resources to achieve this.

As government officials are aware, there is a risk of undercounting services exports due to the way they are collected. For example, the increasing prevalence of electronic exports makes these difficult to capture. In the film industry only a small proportion of the returns from this sector show up in the export figures because of the way the industry is set up with businesses established in New Zealand (they show up in investment returns instead). While this is legitimate in terms of the way the national accounts are created, it means the film sector (together with other commercial presence, mode 3, exports) is not fully represented in export data (goods and services) the way some people would expect it to be.

The Issues Paper refers to the blurred boundaries between services and manufacturing (We note this applies to agriculture too.) This manifests itself in the fact that manufacturing and agricultural activities both have a high services component in them e.g. marketing, R&D etc as well as the examples of some industries such as IT software having an element of both product and service has shown in the paper. It is important to note the interconnectedness between sectors i.e. manufacturers and farmers are dependent on efficient provision of services and a competitive services sector is in their interests and vice versa.

Improving Productivity

We note the mixed record of productivity growth in the services sector as pointed out in the Issues Paper and we agree that a key way to increase its contribution to economic growth is to raise its productivity. Reviewing the regulation of the services industries will be fundamental to improving productivity and exposure to competition will be key to this.

Just as it is in New Zealand's interests to achieve access to overseas services markets, unilaterally opening up New Zealand's domestic services industries to international competition will be beneficial to New Zealand. This would not only benefit consumers of domestic services but would make our services sectors more competitive and productive.

Other policy areas that need addressing include the ease of getting travel and work visas, Government procurement, financial controls, and taxation issues.

Given the size of the public service and the possibility that it is less productive than the economy as a whole, we strongly recommend that the public sector *not* be excluded from the inquiry. Not only is the public sector a significant part of the economy, it very important to have information of how productive is and to make improvements. Incidentally, we note that public policy consultancy (though not part of the public sector) is an important part of the services sector which has scope for expansion internationally.