Australian Trade in Services

- Total trade in services in the year 2008 accounted for 19.1% of Australia’s total trade in goods and services
  - The United States is Australia’s largest trading partner for services and accounts for 11.5% of all services exports.
  - The United Kingdom (UK) and China are equal second export markets
  - US, Singapore and the UK are the top three import sources.
- Trade between EU and Australia in services equals 11.7% of Australia’s total services trade
  - Value of ‘exports’ of $32b in 2008

Business services

- Our interest is business services — such as financial services, insurance, IT related and other.
- Account for 19 percent of the total services exports to the EU and 17 percent of total services imports from the EU in 2008.

Comments on trade data

- Growth in trade — especially since 2005 for exports and 2006 for imports
- Two way trade — net export ratio close to zero
- Surge in imports in 2008 — ‘other’
- Rising share of ‘other’ in exports — also computer
- UK dominates exports and imports: 60-70% — The 2008 surge is mainly with the UK.
Purpose of the Study

- To explore the internationalization strategy and operations of Australian services firms in the EU, and
- To describe the market entry strategies used by the Australian services firms in the EU.

Architectural services application

- Example of 'hard' services
- It’s a growing business
  - "The globalisation of the construction industry, the growing importance of large, complex projects that require large or specialised architectural firms and growing cost differentials between architects from the rich developed countries and the rest of the world, are (drivers)."
- Australian presence in Europe
- Some features of the market in the EU now follow...watch for the UK results.
Architecture vs Engineering

- The nature of architecture means that the types of work that may be subcontracted or outsourced is more limited than engineering.
- The large architectural firms are smaller and less globalised than their engineering counterparts and hence less able to drive international trade.
- International trade in architecture will grow rapidly, but will be driven mainly by the international expansion of large firms.
  - Outsourcing will remain limited to a few labour-intensive processes such as draughtsmanship.
  - This is borne out by the fact that the outsourcing of architectural services has received far less attention from within the profession than outsourcing of engineering services has.

Impediments to international transactions

- Productivity Commission reviewed barriers to establishment and operations (as of 2000)
  - And the extent to which impediments were higher for foreign than domestic firms.
- Scored and converted to an index on a scale from 0 to 1 (foreign)/0.4 (domestic)
- Scores slightly higher than engineering in the EU but lower than accounting and legal services
  - Belgium, Austria, Greece, Italy, Portugal, Spain relatively closed
  - Denmark, Finland, Netherlands and then the UK relatively open

Review

- Overall, not as restricted as some other professional services but still a gloomy story so far – what is the strategy?
  - Variation between countries hints at a strategy
Case study - methodology
• Analysed 2 Australian architecture firms with operations in the EU.
• Conducted semi-structured interviews with senior managers.

Two firms
• Company A is a small organization and Company B is a large organization.
• Company A entered the international market in the late 1970s and Company B commenced their internationalization in the early 1990s.
• These firms have a significant presence globally, including operations and representation in Asia, Europe, North America and the Middle East.

Findings
• Differences in work allocation and nature of work.
• Selection of UK as investment destination in EU.
• Selection of market entry strategy

Differences in Work Allocation and Nature of Work
• A large number of projects in the EU allocated via competitions
  – Requirement for public projects
• Competitions are not open to all and local presence is necessary
  – Mode 1 possible but mode 3 required
• Unlike work in Australia and Asia where the firms build new, the EU market is mature and much of the work is for renovation.

UK as Investment Destination in EU
• Both firms had an office in London - the familiarity in terms of language and laws made the UK attractive
  • risk-averse ‘psychic distance’ model but without the steps’
• UK as a gateway or ‘beachhead’
  • Both firms were able to undertake work in the rest of the EU
• The London office also serviced the firms’ clients in the Middle East and North America who were interested in investing in the UK.
  • Value of further empirical work – more cases, other sectors, aggregate data

Selection of Market Entry Strategy
• Both firms entered the UK market using equity mode of entry strategy but
  – Company A (smaller) opened new office (greenfield) to keep ‘fiscal and design controls’
  – Company B acquired local firm (which was ‘struggling’)

Not just architecture policy matters

• “We looked at France and we thought that was highly regulated, quite restrictive and we didn’t like the idea of people only working 36 hours, or a figure like 32 hours, it didn’t fit our model at all” – Manager Company B.

Registration process

• EU architects are supposed to be mobile across jurisdictions
  – European Commission Architects’ Directive 85/384/EEC.
  • Appropriately-qualified architects from EU Member States registered in their own country are able to register in other Member States.
  • Most UK architectural qualifications are recognised under the Directive and UK architects registered with ARB may register in other EU member countries.
  – (But) Architects qualified in other EU member countries may register with the ARB following two years European professional experience and go on to practice as an architect within the UK.

Implementation is the issue

• Outside –EU architects have to register:
  – Registration (UK) ‘requir(es) foreign architects to practice as interns (?) and pass exams, all but preventing the supply of services on a temporary basis (mode 4) unless the architect has registered previously.’
• Implementation varies!
  – Countries such as Denmark, Ireland and Sweden exercise no state control
  – others reserve some functions for domestically registered architects
  – or put in place various restrictions such as who may make planning applications.
  – debate in the UK this year about ‘extra’ requirements, eg demonstration of practical experience

Implications

• UK focus linked to ‘economic distance’
  – Then becomes a beachhead
• Regulatory barriers significant, including around registration despite EU commitments
  – and ‘devil is in the detail of implementation’
• Residency requirements appear to be resilient
  – Drives mode of entry