



Building Australia's Comparative Advantages

 **Business Council
of Australia**

Australia's comparative advantages

- The drivers that have given Australia more than 20 years of uninterrupted growth will not continue into the future, because of:
 - » Declining dividends from prior structural reform
 - » No boost from a rising terms of trade
- Australia needs a different approach to driving economic and jobs growth over the next decade

- Major forces of globalisation are reshaping the global economy and the nature of competition:
 - » Digitisation and technology are opening new markets, changing business models and causing value chains to fragment
 - » Demographic trends are changing consumption patterns and how we participate in work
 - » Emerging economies are changing sources of demand and the nature of competition
 - » Global value chains mean that all sectors and businesses are exposed to the global marketplace
- All sectors will become increasingly trade exposed – competition will be as much about capabilities and tasks as it is about products and production processes

- The implications are:
 - » Australian businesses need to be globally competitive
 - » Australians must be equipped to compete in a global labour market – skills and capabilities are as tradeable as goods and services

- But our competitive starting point is low:
 - » Our aggregate competitiveness has declined
 - » Most Australian sectors are less competitive than the US
 - » across a range of indicators and have not closed this gap over the last decade
 - » Our human capital is high but declining relative to many other nations

- A new, purposeful framework for growth is needed that involves:
 - » Developing an economy-wide understanding of sector competitiveness
 - » Prioritising all reform actions around sector competitiveness and growth potential
 - » Implementing sector strategies to achieve growth goals
 - » Structural reform to build the innovation infrastructure

Turning this framework into action

Rethinking the role of government in driving growth

1. Rethinking the role of government in driving growth, moving to a facilitation and coordination role rather than subsidies or direct intervention. Governments should be facilitating competitive industry sectors by taking a sector view of the economy and prioritising all decisions and reforms to promote Australia's comparative advantages. Additionally, governments should be enabling innovation by fostering entrepreneurship and collaboration and thus dynamic growth and facilitating skills and capabilities.

Developing specific sector strategies

2. A new approach to sector strategies to take a systems approach to prioritising policy action, with urgent action needed for the mining and LNG, agriculture and food production, and energy sectors, which are critical to driving Australia's wealth and enabling growth.

Structural reforms to build the innovation infrastructure

3. Actions to lift trade and investment and foster business risk taking to ensure growth sectors can attract the capital for major projects and achieve economies of scale, and so that transitioning sectors can make investments in productivity and restructuring.

4. Regulation and competition policy for a global market to lift the performance of all sectors and allow companies to contribute to global supply chains.

5. Preparing Australians to compete in a global labour market to ensure our human capital is maintained as a competitive advantage.

6. Reducing labour market rigidities to allow transitional sectors to move within the value chain, drive growth in other sectors and enable competition at the task level.

7. Developing physical infrastructure and population policy for an innovative economy.

8. Incentivising innovation by aligning Australia's research and development efforts with our comparative advantages and fostering cross-sector collaboration.

This Business Council of Australia (BCA) discussion paper, *Building Australia's Comparative Advantages*, builds on the work of the BCA's 2013 *Action Plan for Enduring Prosperity*. It seeks to start a conversation about what it will take to build an innovative economy, foster globally competitive industries and identify the types of jobs that can be created in an advanced economy like Australia.

This discussion paper focuses on actions government can take to foster an innovative and dynamic economy. In future work the Business Council will facilitate further discussion on what businesses can do to come to terms with a global marketplace. We will also examine in detail the challenges that each sector faces to becoming globally competitive.

Building Australia's Comparative Advantages draws on a paper prepared for the BCA by McKinsey & Company titled *Compete to Prosper: Improving Australia's Global Competitiveness*.

BCA discussion paper: *Building Australia's Comparative Advantages*

McKinsey & Company paper, *Compete to Prosper: Improving Australia's Global Competitiveness*

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