

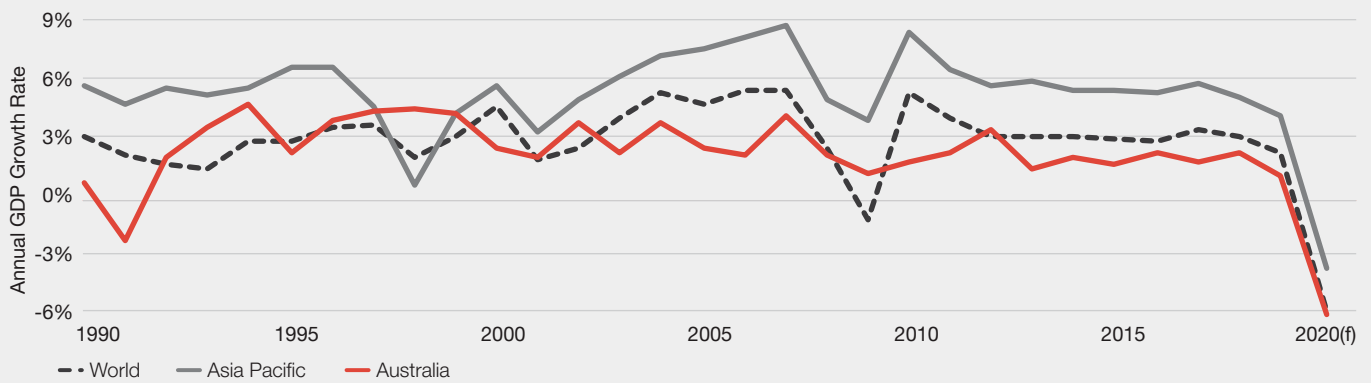


Time to Act Australia

A nation on the move

Australia has witnessed stable economic growth averaging 3 per cent per year over 1992 to 2019, representing the only major high-income economy to have avoided a recession over this period. The country's favourable economic performance has been driven by multiple factors – including key policy reforms (industrial, financial system and labour market), growth in exports (agricultural, mineral and energy), rising innovation focus in the corporate sector and the emergence of a strong services sector making Australia a preferred destination for travel and education. Immigration has played an important role in driving the economy as well, with 62 per cent of the nation's population rise since 1997 being attributed to net overseas migration. Finally, the development of strong institutions and fiscal prudence in government spending has also allowed Australia to maintain high credit-worthiness, thereby improving investor and business confidence.¹

Economic growth trends for Australia, compared to regional and global averages

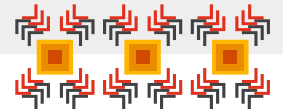


Source: International Monetary Fund (October 2020)

Economic and Human Development Index (HDI) performance of key Asia Pacific markets



Source: International Monetary Fund (October 2020); United Nations



The need for change

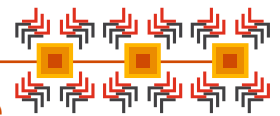
While Australia has consistently maintained positive economic growth in the past few decades, trends have slowed down recently – with growth reaching its lowest figure in 2019, since a contraction witnessed in 1991. With the onset of the global pandemic, overcoming key challenges needs to be of utmost priority as Australia seeks to revive growth and design a stronger future trajectory – creating an urgency to act now.²

COVID-19 disruptions: The most immediate challenge for Australia is to minimise the economic and social fallouts of the pandemic, while also repositioning the country for the future – as per evolving industry needs, consumer behaviour, supply chain structures and workforce requirements. COVID-19 disruptions have significantly impacted the country, with economic output projected to decline by 4.2 per cent in 2020. The pandemic is also having an impact on the financial viability of organisations and individual livelihoods – increasing government debt, restricting corporate profits and causing significant job losses. Restrictions to international mobility caused by COVID-19 could further impact economic prospects by restricting labour supply and growth in consumer spending.³

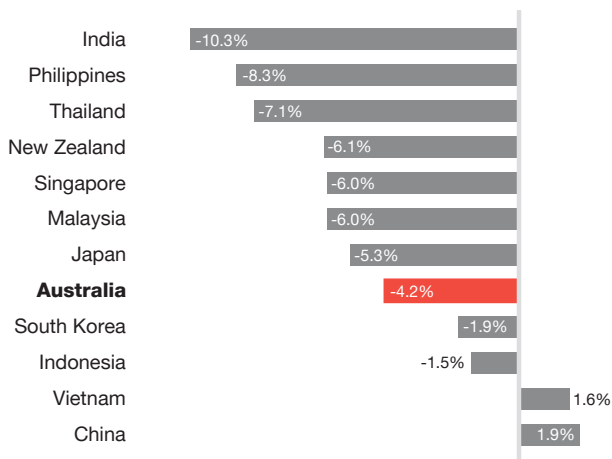
Productivity concerns: Like many advanced economies worldwide, Australia has been facing slower growth in productivity over the past decade – a challenge that is

expected to intensify with an ageing population and cross-border mobility restrictions induced by the pandemic. Evolving demographics in particular remains a key area of concern, with old-age dependency for the country projected to reach 31 per cent by 2030 – way above the world average of only 18 per cent by then. This could present a major challenge to economic growth in the form of labour shortages and declining growth in labour productivity, while also increasing the fiscal burden on the government in the form of reduced tax revenues and rising pensions and social welfare costs.⁴

Environmental sustainability: With rising temperatures due to climate change, the frequency and intensity of extreme weather events such as bush fires, droughts, storms and floods have been increasing in Australia, leading to losses of life and property. Driven by overseas migration, Australia's population has risen by a significant 50 per cent since 1990, to reach around 26 million by 2020. An associated rise in consumption levels has increased emission and waste management concerns in urban centres. According to estimates by the United Nations, Australia's population could rise by another 30 per cent over the next three decades, further increasing the burden of consumerism on the country's environmental resources – and necessitating a rethink of its future growth trajectory.⁵

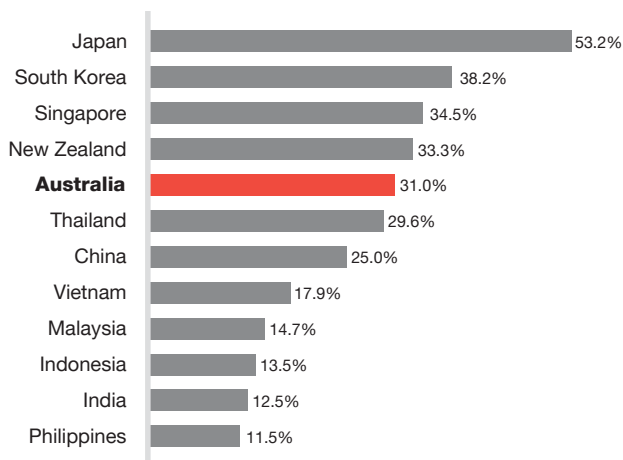


Annual GDP growth rate, 2020f



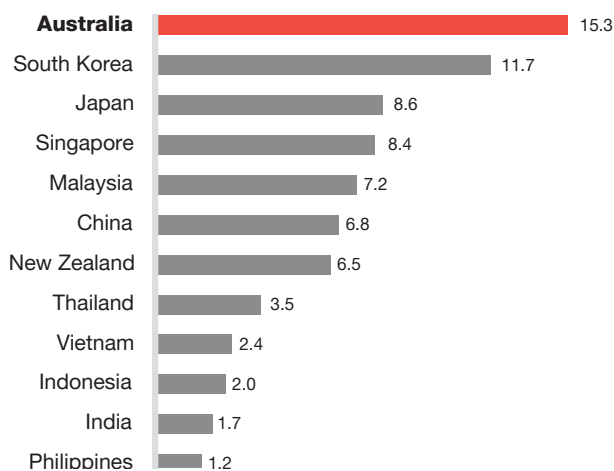
Source: International Monetary Fund (October 2020)

Old-age dependency ratio, 2030



Source: International Labour Organization

CO2 emissions per capita, tonnes, 2018



Source: International Energy Agency

Building a new future

Tackling these growth challenges has become necessary to repair, redesign and rebuild Australia's economy for a post-COVID-19 future – while enabling a more inclusive and environmentally sustainable growth trajectory. This requires all stakeholders (the government, businesses and the society) to shift from old conventional growth models and build new growth pillars for the future.

Pillar	1	Advancing the digital economy <ul style="list-style-type: none"> Building digital value chains for resilience From digital risk to digital trust — collectively enabling the pathway
Pillar	2	Enabling regional enterprise growth <ul style="list-style-type: none"> Propelling companies for growth within Asia Pacific Boosting regional trade in services as a new growth lever
Pillar	3	Rebalancing supply chains and fostering innovation <ul style="list-style-type: none"> Developing balanced and resilient regional supply chains Fostering a collaborative innovation ecosystem
Pillar	4	Expanding and future-proofing the labour force <ul style="list-style-type: none"> Upskilling today to be relevant tomorrow Preparing the employees of tomorrow
Pillar	5	Building climate change resilience towards a net-zero future <ul style="list-style-type: none"> Building solutions for a net-zero circular economy Adopting technology to address food and agriculture concerns

1**Pillar 1 - Advancing the digital economy**

Digitalisation has been a growing need for ageing nations such as Australia to help boost productivity. This has become even more vital in the future, with COVID-19 related disruptions making resilience a key priority. While Australia already features amongst leading Asia Pacific nations in terms of digital readiness, businesses now need to focus on digital adoption at the right points across their value chains while becoming more cyber resilient to safeguard against attacks on data and digital identities. Accelerated digitalisation brought about by COVID-19 is also expected to intensify cyber risks, making this an important focus area. The government in particular is required to extend greater support to transform small and medium-sized enterprises (SMEs) and take steps to strengthen the society's trust in digital systems, to establish a truly advanced and efficient digital economy.⁶

2**Pillar 2 - Enabling regional enterprise growth**

Moving outside domestic shores has become crucial for business growth, prioritising expansion within Asia Pacific to target its extensive and fast growing needs. Australian businesses will need to localise and be more agile in new regional markets, exploring alliances and acquisitions to lower entry barriers and growth risks. The services sector can also become a new growth lever for Australia, accounting for two-thirds of gross domestic product (by value-added) but only 21 per cent of exports (below world average of 25%) at present. Areas of strength such as financial services, research and development and education could lead the way in enhancing regional presence – but will require government agencies to assist businesses in identifying the right target markets and in building their brand presence overseas.⁷

3**Pillar 3 - Rebalancing supply chains and fostering innovation**

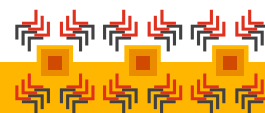
Supply chain risks have increased significantly over time with global networks becoming more complex to manage, and COVID-19 led disruptions further exposing weaknesses in existing structures. Leading Australian businesses now need to rebalance their fragmented global operations with more integrated regional networks to improve supply chain visibility and resilience. They also need to take a lead in fostering more agile innovation – working with the government, funding bodies and academic institutions to build more specialised ecosystems suited to Australia's and the broader region's fast changing requirements. Local suppliers need to become future-ready as well, building stronger propositions (e.g. engineering excellence or technology leadership) and participating in innovation initiatives to become preferred partners for global brands building regional supply chains in Asia Pacific.⁸

4**Pillar 4 - Expanding and future-proofing the labour force**

Aligned with Australia's changing growth requirements, its workforce also needs to be equipped to foster digitalisation and drive higher value addition. The government needs to take a lead in this regard, highlighting its growth vision and driving more targeted engagement with other ecosystem participants, all across the “education journey”. Large businesses need to build a more focused and agile talent development plan, in line with their industry's growth trajectory and the evolution of specific roles – while helping SMEs in their supply chains to bridge key capability gaps. Partnerships with leading companies can be particularly important to reskill smaller firms, as they seek to understand the applicability of emerging digital solutions and learn best practices on implementing these effectively.⁹

5**Pillar 5 - Building climate change resilience towards a net-zero future**

Facing a growing sustainability risk in the form of extreme weather events and frequent natural disasters, Australia needs to prioritise action on minimising the economic and social costs of climate-change. While this will require a rethink on multiple fronts, from how it generates raw materials to how it addresses growing energy requirements – two areas in particular will be important to achieving a strong impact within a quicker timeframe. Firstly, plans to build a circular economy in urban centres will need to be better designed for more visible impact – creating incentives to form a tri-entity partnership between governments, businesses and communities for large scale adoption. Secondly, Australian businesses will also need to prioritise the sustainability agenda to remain relevant to a more environmentally conscious consumer, adopting new growth strategies and operations models to move towards a net-zero climate impact.¹⁰



The way forward

There is now an urgent need for action. The government needs to become more proactive in enabling change, businesses need to take a lead in driving new solutions and the society needs to become a more active collaborator to sustain long term impact. More advanced markets such as Australia also have a major role to play in making the entire region resilient and future-ready – leading efforts to enhance research and development, revamp upskilling initiatives, bridge infrastructure gaps and foster institutional development for the rest of the region. Australia in particular has developed strong research and innovation expertise in upcoming areas such as agritech – and can lead the way by sharing policy and technical expertise with other regional markets facing rising productivity and food security challenges.¹¹

Much needs to be done. It's now the **'Time to Act'** and move together towards a stronger shared future.

Endnotes

1. Australian Trade and Investment Commission, Why Australia – Benchmark Report, April 2019; PwC, Australia Rebooted, 2020; Reserve Bank of Australia, Twenty Years of Economic Growth, August 2010
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3. Ibid
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5. Australian Environmental Grantmakers Network, 'How will climate change affect Australia?'; Australian Government, 'Drought in Australia', April 2019; PwC, Australia Rebooted, 2020; United Nations, World Population Prospects 2019, August 2019
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8. PwC discussions with subject-matter specialists
9. Ibid
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