

26 August 2021

Submitted via website to:
Economics and Industry Standing Committee
Legislative Assembly
Parliament House
4 Harvest Terrace
WEST PERTH WA 6005

Dear Committee,

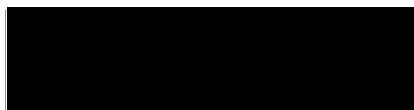
Submission: Parliamentary inquiry into intergenerational challenges and opportunities for the Western Australian economy (2021-2041)

The Committee for Perth is WA's leading independent think tank. We have more than 100 members covering over 40 sectors in Greater Perth and WA's economic base.

Thank you for the opportunity to make a submission to the *Parliamentary inquiry into intergenerational challenges and opportunities for the Western Australian economy (2021-2041)*. An important undertaking.

This submission has been prepared drawing on our most recent research projects - the *Future of Work* (2021); *Hashtag Perth* (2020); and *Bigger and Better Beyond the Boom* (2018). These reports should be read in conjunction with this submission. Please note that the *Future of Work* report will not be publicly released until 1 September however after that date all relevant reports and research bulletins are available on our website at www.committeeforperth.com.au.

Yours sincerely,



Marion Fulker AM
Chief Executive Officer
Adjunct Senior Research Fellow UWA

1 The structure of the WA economy

It is well documented that the Western Australian economy is heavily reliant on the mining sector. Our research has shown a strong perception in the resident and business community that increasing economic diversity is crucial for long-term economic resilience.

The reliance of the economy on the mining industry is widely perceived to have heightened the volatility of Western Australia's economy over the past decade. Committee for Perth research has identified concern that it will expose the State to economic disruption and instability in the future.

WA's economic profile shows that in 2019-2020, the mining sector generated 43% of WA's GSP and that goods made up 96% of WA's exports, with iron ore accounting for 54% of the State's total exports in 2019-2020 (Department of Jobs, Tourism, Science, and Innovation, 2021; Department of Foreign Affairs and Trade, 2021).

Overdependence is demonstrated by the location quotients for the mining sector in Western Australia and in Greater Perth, see Table 1 below which shows that Western Australia is more dependent on mining than any other state is on any other industry. Disruption to the mining sector could therefore have a significant negative impact on the performance of the economy.

Table 1: Location Quotient Employment by Industry Sector by State, 2019

Industry	New South Wales	Victoria	Queensland	Western Australia	South Australia
Agriculture, Forestry and Fishing	0.80	0.91	1.21	1.02	1.44
Mining	0.45	0.16	1.33	4.48	0.84
Manufacturing	0.92	1.24	0.92	0.86	1.82
Electricity, Gas, Water and Waste Services	0.71	1.28	1.10	1.39	1.13
Construction	0.96	1.07	1.05	0.97	0.89
Wholesale Trade	1.13	1.04	0.84	0.95	0.99
Retail Trade	1.01	1.03	0.99	0.92	1.06
Accommodation and Food Services	1.04	0.86	1.19	0.85	1.01
Transport, Postal and Warehousing	0.99	1.07	1.04	1.03	0.80
Information Media and Telecommunications	1.19	1.18	0.60	0.63	1.24
Financial and Insurance Services	1.43	1.09	0.66	0.58	0.64
Rental, Hiring and Real Estate Services	0.92	0.98	1.35	0.93	0.71

Tri-Professional, Scientific and Technical Services	1.54	1.03	0.86	0.92	0.78
Administrative and Support Services	0.97	1.05	1.01	0.95	1.13
Public Administration and Safety	0.92	0.79	0.95	0.99	1.10
Education and Training	0.96	1.03	0.97	0.97	1.08
Health Care and Social Assistance	1.01	0.99	1.02	0.90	1.09
Arts and Recreation Services	0.89	1.09	1.16	0.97	0.63
Other Services	0.98	0.91	1.08	1.16	1.02

Source: Davis (2021)

WA’s specialisation in mining has held the State and Nation in good stead during the global COVID-19 pandemic. Australia’s shift towards service sector employment and exports has been less apparent in WA. However, the growth in some service industries in WA such as professional, scientific, and technical services has been strongly linked to mining sector investment, growth and performance and associated population growth (Committee for Perth, 2021).

The State’s economy has also been identified as falling behind in innovation and, in some sectors, susceptible to technological disruption. Committee for Perth research shows that the status of WA as a resilient and prosperous mining and resources hub over the past three decades has dampened the impetus to invest in development markets and human capital for the future. WA is significantly lagging in government and private investment in R&D. The Nation has been falling behind in the technology race due to limited investment in the development of new technologies and in planning for technological advances such as artificial intelligence (AI) (Committee for Perth, 2021).

There is widespread agreement among the resident and business community that WA needs to invest in developing future industries and markets, and that positioning the State to be leaders in existing and future industries will require significantly upscaled investment in research and development (Committee for Perth, 2021).

2 Key factors driving demand for WA exports; and factors that will affect demand for WA exports and demand for inbound investment into the future

2.1 Factors driving demand for mining and mineral exports

Global population growth and associated international trends such as urbanisation and industrialisation are expected to continue to drive demand for minerals exports over the coming two decades. Yet there are global trends and critical uncertainties that also have potential to increase volatility and disrupt demand and supply over this time period. These include:

1. Geo-economic uncertainties, such as the extent to which cross-border flows will remain open or become restricted, and the extent to which markets will be free or controlled.
2. The geo-political landscape, particularly the level of stability across countries and the extent to which there is ideological convergence or divergence between different regions and nations.

3. Economic outlook, including whether demand for mining and metals exports remains predictably cyclical, or that the industry becomes extremely volatile (which is considered possible over the coming decade).
4. Environmental outlook, which includes the impacts of environmental issues on mining and metals, particularly the impact of climate change action and whether it is decisive and ambitious or reactive and incremental.
5. Depletion of existing reserves and increasing difficulty developing new ones.

In the context of WA, it is apparent that the stability of Australia's relationship with China and the continuation of a positive trade relationship is a critical factor that will underlie future export demand. This is evidenced by the fact that, in 2020, exports to China generated 56% of all of Western Australia's export revenue. Volatility in investment and in export prices is also proving to be a key risk for the State's economy (Committee for Perth, 2021).

Other notable risks for the mining industry include increasing environmental, social, cultural and 'license to operate' requirements along with skill shortages. In this regard, while research has found that few metals are currently facing physical depletion in Australia, they are becoming harder to obtain, and the energy, environmental, social, and reputational cost of acquiring them could constrain future production and usage (Committee for Perth, 2021).

2.2 Globalisation/Anti-Globalisation

Globalisation, the process by which the world has become more interconnected as a result of increased trade, capital flows, communications, and cultural exchange, has benefitted WA by helping the State to overcome the limitations of its relatively small size and gain economies of scale through access to larger markets.

Yet, over time, concerns have been raised around the world about the impact of globalisation on national sovereignty, regional jobs and inequality as some people, firms and regions boast enormous 'winner takes all' gains from access to global markets and technological advancement while others bear considerable loss. These concerns have also heightened international geopolitical tensions, such as tensions between China and Australia, and have been exacerbated over the past year as a result of the COVID-19 pandemic, as economies and businesses around the world have placed an increased emphasis on building local markets. This has the potential to impact on demand for WA goods and services, by reducing demand from markets overseas (Committee for Perth, 2021).

The *Future of Work* survey commissioned by the Committee for Perth (Ipsos, 2020) found that 61% of WA businesses believe that globalisation has a positive impact on business and 37% think that the shift toward anti-global sentiment will be detrimental to businesses in the short to medium-term future.

2.3 Skill shortages

Access to skilled workers is a significant issue for WA industries and has capacity to disrupt potential growth of export sectors and markets. This includes goods and service sector exports, both of which are dependent on businesses having access to workers with the right skills to meet their needs.

Difficulties finding skilled workers has been a critical problem for businesses in Australia and WA over the past five years. In 2019, the World Economic Forum ranked Australia 43rd for ease of finding skilled workers, well below the capacity of comparable developed nations such as the US (1), Taiwan (7), Singapore (9) and the United Kingdom (12) (Schwab, 2019).

The Committee for Perth *Future of Work* survey also established that prior to the COVID-19 pandemic, 49% of WA businesses experienced challenges accessing workers with the skills that they needed (Committee for Perth 2021; Ipsos, 2020). Research also indicates that access to skilled people has been limited by inadequate growth in human capital, along with difficulties attracting and retaining skilled workers within the State (Committee for Perth, 2021).

Evidence indicates that the COVID-19 pandemic has exacerbated this problem by restricting migration and there is a need for the State Government to both invest in building human capital within the State that will better meet industry needs as well as identify opportunities to better enable skilled inbound migration as soon as practicable (Committee for Perth, 2021).

2.4 Climate change

Climate change has also been identified as a critical factor that will impact on demand for exports in WA and is expected to influence the capacity for free trade in the future. Climate change responses are also impacting and have the potential to impact on the ability of WA companies to attract overseas investment.

The European Union's (EU) endorsement of a Carbon Border Adjustment Mechanism (CBAM), which is a charge or tariff on the import of certain goods from countries outside the EU that have less strict policy settings in regard to emission reduction, provides an example of the way that climate change responses could impact exports in the short-term future. According to the EU, the aim of the mechanism is to insure EU companies against cheaper imports from countries with weaker climate policies, and to protect the economy from the movement of European companies to cheaper, offshore locations.

There has also been a perceptible increase in climate action, including the emergence of institutional investors as advocates. This has generated an increased expectation that to attract investment, companies must account for, formally commit to, and invest in being part of the global climate change solution. Investor initiatives for climate action include:

- **The United Nations Principles for Responsible Investment** require companies to reflect climate-related risks in their financial reporting and to account for the damage that projects incur on the planet.
- **Global investor coalition Climate Action 100+** is a group of investors with a combined USD 54 trillion in assets under management. The coalition aims to work with the companies in which they invest to ensure that the companies are minimising and disclosing the risks and maximising the opportunities presented by climate change and climate policy.
- **The Investor Group on Climate Change (IGCC) Australia and New Zealand** represents institutional investors with total funds under management of over \$AUD2 trillion, aims to catalyse investor action on climate change by encouraging government policies and investment practices that address the risks and opportunities of climate change.
- **The Australian Council of Superannuation Investors Limited (ACSIL)** is a member organisation that manages over \$1AUD trillion in assets. The organisation recently released a climate policy that supports the Paris Agreement and highlights the need for a planned, government-led transition to a low-carbon economy. It also states an expectation that companies set their own strategies to adapt to a low-carbon future and align their corporate strategies to the Paris Agreement (Committee for Perth, 2021).

At the same time, global investors have initiated a big shift towards new sources of renewable power. Investment in renewables has grown from less than USD 50 billion per year in 2004 to approximately USD 300 billion per year in 2018 and this is expected to continue to increase. Investments in renewables exceeded investments in new fossil fuel power by a factor of three in 2018 when renewables made up 26.2% of [global electricity generation](#). This is expected to rise to at least 45% by 2040 (Committee for Perth 2021).

WA therefore needs to position itself to benefit from climate action and particularly the shift to investment renewables by advancing its own process of climate adaptation. Supply and development of ‘commodities of the future’, which includes renewable energy and goods used in the production of batteries as well as new technologies such as hydrogen fuel cells have been identified as specific opportunities (Committee for Perth, 2021).

2.5 Technology and innovation

Innovation and technological advancement, including digitisation and the shift toward automated processes, also has the potential to influence WA’s export industries. These impacts can be positive and negative.

The potential for digital technologies and new technology like Artificial Intelligence (AI) to improve productivity is globally supported, with projections that these technologies could be worth AUD 315 billion to the Australian economy by 2028 and AUD 22.17 trillion to the global economy by 2030 (Hajkowicz, et al., 2019).

Technological advancement has already been demonstrated to increase productivity, and to enable value adding and export growth in traditional goods-producing export sectors such as agriculture, manufacturing, and mining. New technology like AI also has the potential to increase productivity and open the door to new exports and markets, including service exports, such as professional, scientific, and technical services, health care and social assistance and education services (Committee for Perth, 2018).

Research shows that WA is a leader in technological innovation and automation in the mining sector, yet is less technologically advanced in others, such as some service industries which are still on a path toward digitisation. There is a strong desire for WA to take advantage of this knowledge and to apply it towards growth and innovation in sectors in which WA already has a competitive advantage, as well as the advancement of other industries (Committee for Perth, 2021).

For example, the State’s strong specialisation in advanced goods producing sectors make WA the natural location for a national R&D hub for the development of AI to reduce the costs and improve the productivity and sustainability of the agriculture; mining; fisheries; forestry; environmental management; and associated sectors, which have been identified as areas of competitive advantage for Australia (Department of Industry, Science, Energy and Resources, 2020).

Yet, whilst new technologies generate opportunities, they can also lead to disruption. Digitisation within the retail trade and information media and telecommunications industries have, for example, generated productivity growth, but employment decline. It is likely that such sectors will continue to become less labour intensive as the shift towards e-commerce intensifies. Risks to long-term productivity and export growth in these sectors also includes heightened competition from interstate and overseas, particularly if local businesses fail to keep up with the global pace of technological change and if more jobs shift offshore as a result of becoming remote and mobile (Committee for Perth, 2021).

Building WA’s capacity as a technologically advanced exporter of services will therefore be important for both export and employment growth. This means developing highly competitive, innovative, and advanced businesses within the State, and ensuring that the State can attract and retain the skilled and talented people to support service sector employment growth within the State.

2.6 Reputation

Over the past five years Committee for Perth research has established that Greater Perth and WA’s reputation impacts on export growth, particularly service sector exports, and the ability of businesses within the State to attract investment. In particular, reputation has had a strong and notable impact on growth of sectors such as tourism and education services which, particularly prior to the pandemic.

In 2019, Committee for Perth research indicated that Greater Perth’s reputation elsewhere in Australia, New Zealand, and Singapore, is relatively positive, particularly as a place to visit. Yet it also found that a significant uplift occurs in reputation among people who have visited Greater Perth, and that this increases potential for investment growth and service exports, particularly inbound tourism.

Positioning WA and Greater Perth as open for business and building familiarity with the State and Greater Perth through positive marketing, will therefore be important in order to generate service export growth and investment in the COVID-19 pandemic.

Table 2: Exposure to Greater Perth increases favourable perceptions of the region to live, work, invest, visit and study

	Favourability with no exposure	Favourability with exposure	Experience uplift
Work	34%	62%	+28%
Invest	28%	54%	+26%
Visit	63%	85%	+22%
Study	33%	56%	+23%

Source: Committee for Perth (2019)

3 Actions being undertaken by relevant stakeholders to plan for identified trends in demand for WA exports

Stakeholders in WA are responding to global advancements, disruptions, trends and shifts in investment.

Adopting new technology is the most common adaptation, and according to the Committee for Perth *Future of Work* business survey, found that 95% of WA businesses surveyed planned to adopt new technology to improve productivity and gain access to new markets. Digital technologies are most commonly being adopted by WA businesses, while AI technologies are expected to be most commonly adopted in the future.

Businesses are also adapting to trends towards globalisation, particularly during the COVID-19 pandemic. The *Future of Work* business survey found that a shift towards local markets has been a core adaptation of businesses in response to the COVID-19 pandemic and changing global business conditions. Most notably:

- 54% of businesses said that they were primarily focused on local markets 1–5 years ago.
- 63% of businesses said that they have been mainly or completely focused on local markets since the arrival of COVID-19.
- 51% expect to remain completely focused on local markets into the future.

Businesses are also adapting to the impacts of climate change and are increasingly planning to transition towards a zero-carbon future. The *Future of Work* business survey found that 34% of WA businesses are concerned about the potential negative impacts of climate change on their businesses, whilst anecdotal evidence gathered during consultation indicated that large enterprises are increasingly planning for climate change adaptation, including: building resilience against uncertainty around inputs to production, energy, transport and insurance associated with less predictable regulation, energy pricing, natural disasters and extreme weather events; as well as committing to targets to deliver a zero-carbon future in order to meet consumer and investor expectations (Committee for Perth, 2021).

Committee for Perth research and consultation as part of the *Future of Work* project identified an expectation that the State Government will lead and enable people and businesses to adapt to climate change. This includes planning for the physical impacts of climate change, incentivising climate action and assisting industries, businesses, and individuals with adaptation costs. Most importantly, there is a strong desire for WA to view climate change adaptation not as a risk, but as an opportunity. In particular, meeting the global climate challenge will require innovation and the invention of new breakthrough technologies, and this provides an opportunity for WA to lead and create new industries and markets (Committee for Perth, 2021).

4 Recommendations

In conclusion, recent Committee for Perth research projects make multiple recommendations that are targeted towards building a strong and resilient economy for the future.

Relevant recommendations for the State Government are provided below. It is our view that these actions will place WA on a pathway to lead the Nation, to take advantage of opportunities, and to address the intergenerational challenges posed by the future.

4.1 Recommendations: *The Future of Work: Equipping WA and its people to lead the Nation in the future world of work*

- Establish Australia’s national R&D hub for the development of AI for agriculture, mining, fisheries, forestry, and environmental management within Greater Perth.
- Develop collaborative ‘Centres of Excellence’ as hubs of R&D in sectors where WA has capacity to build a competitive advantage, such as health; education; environmental management; renewable energy; METS; space; and agri-tech.
- Increase State Government investment in R&D to levels that are at least comparable with that of other States and Territories.
- Update the Diversify WA report to reflect technological change and global challenges including COVID-19 and disrupted trade relationships, and to increase the focus of the strategy on innovation, entrepreneurialism, and human capital growth.

- Update the State’s climate policy to be the leading, most progressive policy Australia-wide and prepare and implement a strategy to grow the renewable energy network across the State; increase investment funds associated with future energy innovation; and develop breakthrough solutions to emissions reduction.
- Initiate comprehensive reform of the education system (including early learning, school, and higher education) and associated funding frameworks to ensure that they are globally competitive, are equitable, encourage human capital growth and equip students and workers with the skills needed for the jobs of the future.
- Incentivise training in occupations where there is a current or predicted skills shortage.
- Review the rates of pay for apprentices and other workforce trainees to encourage training and skill development.
- Encourage more people to enrol in higher education (including vocational, technical, and tertiary education) through funding and assistance programs.
- Incentivise training and education for minority groups, for people from low socioeconomic backgrounds and for people in occupations at risk of technological disruption.
- Ensure support services are in place to enable people to participate in the workforce, including adequate access to childcare or assistance with other caring responsibilities.
- Provide equitable access to information and communications technology (ICT) infrastructure and invest in eliminating the education, work, and digital divide, particularly for Indigenous communities.
- Governments to reform industrial relations and occupational health and safety legislation to ensure that it is up to date with current and emerging forms of work and workforce and workplace requirements.
- Review regulations to identify and address barriers to the implementation of new or existing technologies that will improve prosperity and liveability.

4.2 Recommendations and actions: *Boorloo Kworp ‘Perth is good’*

- Take advantage of renewed community pride and activate people to share Perth’s best-kept secrets.
- Undertake collaborative action to increase awareness and enhance Perth’s reputation locally, nationally, and internationally.
- Create the ‘one big thing’ to put Perth on the map, a National Centre of Aboriginal Culture.
- Create a vibrant Perth City Centre with a critical mass of residents, students, workers and visitors’ day and night.

- Look north for opportunity and utilise existing relationships with Asia to strengthen ties with Perth.
- Target economic stimulus and economic development funds to diversify the economy and strengthen Perth's reputation.
- Enhance Perth's reputation by being a renewable energy leader.

4.3 Recommendations and actions: *Perth's Pathway to Prosperity*

- Develop the inaugural investment, engagement and attraction strategy and associated brand to promote Perth as a place to invest, work and learn.
- Create the inaugural long-term economic growth and competitiveness strategy.
- Develop the inaugural long-term infrastructure strategy.
- Focus on sectors where Perth has a competitive advantage, opportunity or increasing demand in order to grow the economy.
- Protect and nurture Perth's ecosystem of innovation and entrepreneurship.
- Implement 'smart city' initiatives for infrastructure efficiency and improved liveability and urban competitiveness.
- Increase Perth's human capital and foster lifelong learning.

5 References:

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