Can Australia capitalise on the post-crisis opportunity?☆

B. Hayward

136 Sundance Way, Gold Coast, Queensland 4216, Australia

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Abstract

The Asian Economic Crisis presents perhaps a final opportunity for Australia’s IT&T industry to make its presence felt on the world stage. As a centre of innovation and a desirable location for IT&T facilities, Australia has often been overlooked as its near neighbours to the north gain all the attention. This paper summarises the main obstacles Australia has to overcome in order to gain mind-share amongst the global IT&T supplier community. © 1999 Elsevier Science B.V. All rights reserved.

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1. Introduction

Economically and commercially, Australia is very much part of the Asia-Pacific. Its future is intimately tied to that of the rest of the region. Nevertheless, despite market nervousness that the shock waves from the Asian financial crisis would damage the Australian economy, throughout 1998 the standard indicators have portrayed a solidly performing domestic economy. While the possibility of a future, crisis-induced, economic downturn remains, and with it the possibility of serious damage to the Australian information technology and telecommunications (IT&T) industry, this article argues that the more substantial threat lies ahead when the Asian economy starts to pick up. The threat is that the Australian industry will not be able to capitalise adequately on the emerging opportunities.

GartnerGroup has found that Australia has the most mature IT environment among the 14 most developed countries in the Asia-Pacific. This is a measure of its advanced and sophisticated consumption and use of IT products and services. As a country, being a

☆ This article is based on a more detailed GartnerGroup report by Bob Hayward. For further information, GartnerGroup can be contacted by sending email to: information.asiapacific@gartner.com

E-mail address: bhayward@onthenet.com.au (B. Hayward)
demanding user is a prerequisite of becoming an advanced supplier of IT&T products and services. To become a leading supplier is a key ambition of the industry. However, Australia needs to act on many fronts with a sense of urgency if it wants to avoid being left behind other more IT-enabled economies. In the electronic commerce market, overseas players are already establishing brands and globally dominant positions, while within the IT&T industry itself multi-national corporations (MNCs) are accumulating increasing power. Countries as diverse as Japan, the UK, Taiwan, Singapore, Malaysia, Israel and Ireland are all extremely focused on growing their IT&T industries. Without immediate and appropriate action, the trade gap in IT&T goods and services could soon rise to immense proportions, as Australia becomes increasingly reliant on overseas intellectual capital as well as physical systems. Today, Australia accounts for less than 0.5% of the worldwide manufacture of IT products. Singapore, with just 20% of Australia’s population, secures close to 8%, while Malaysia, which is a less economically developed country, captures 5.5%. Without radical action, Australia’s trade deficit in IT goods and services may exceed A$45 billion by 2005.

The steps to “jump start” IT&T industry development must be pragmatic and realistic, recognizing the real market domination that exists by overseas IT vendors in many critical areas. Any attempt to fight or deny this domination will only lead to isolation, reduced competitiveness and increased costs to Australian business. Australia needs to develop an IT&T cluster because when the regional economy picks up, business will gravitate towards the clusters. Clusters, of which Silicon Valley is the best known example, arise where companies in the same sphere of business activity want to be close to each other. Synergies occur, new ideas are tested, innovation explodes and supply chains are created. The catalyst for any cluster has to be a major investment by the global vendors and producers of IT products. There is no possibility of Australia creating a strong domestic IT&T industry without having a similarly strong IT&T MNC presence.

2. Negative perceptions

In Section 2, we present some of the negative perceptions of Australia which act as barriers to the development of its IT&T industry. These perceptions are derived from the experience of GartnerGroup’s Australian-based analysts in working with a wide variety of international consumers, financiers and producers of IT&T goods and services. While many of these perceptions are unjustified, Australia has much work to do to counter them and gain “mind-share” with the global IT&T community.

2.1. High taxes

*Perception:* Australia’s high taxes make it an unattractive location for investment.

*Fact:* Australia’s total tax taken as a percentage of GDP is average by OECD measures, although it does compare poorly against our closest regional neighbors competing for the same IT&T investments. Two very visible taxes are perceived, correctly, as high when compared to those of the US or the UK. Income tax is now effectively a flat 50% tax on marginal earnings for most people employed in the well-paid IT&T sector. Capital gains tax (CGT), a key component of venture-capital investment decisions and a driver for
entrepreneurial activity, is very high relative to other developed countries, and is the Number One disincentive for overseas investment. However, tax advantages applying to nonresidents and a lower cost of living than most industrial countries make Australia a more attractive option than it is perceived.

2.2. Complex taxes

_Perception:_ Australia has a very complex taxation system, with high costs of compliance.

_Fact:_ True. Australia’s current tax regime and employment regulations are far too complex to be fully understood by anyone trying to arrive at a major investment decision or start a new company. Most taxes do nothing to further industry development or create employment other than for the accounting and legal professions.

Some aspects of compliance imposed on Australian business are simply ludicrous. All people travelling on business interstate or overseas for more than a few days, including the CEOs of Australia’s largest companies, are required to complete ‘trip reports’ noting their appointments every day. Payroll tax varies by state, and actually creates a disincentive for smaller companies to grow and hire more people as certain thresholds are reached.

2.3. Lack of venture capital

_Perception:_ Australia does not have the right economic, regulatory or cultural climate to encourage new IT&T start-ups.

_Fact:_ Some progress has recently been made to funnel institutional investment and government funds through special Innovation Investment Funds to small, locally owned IT&T companies. In the US in 1997, US$12.8 billion in venture-capital funds were invested in 2691 deals, most of which were IT&T related. In the same year less than A$100 million was invested in technology and biotechnology start-ups in Australia and New Zealand combined. Many Australian venture-capital companies were badly burned in previous IT&T related investment and now concede that their knowledge of this industry was poor. This has made them more cautious.

There are many other facilities and schemes in Australia to assist small companies and start-ups. The problem is the amount of time and effort required to discover and claim these entitlements—they are offered by innumerable government agencies at local, state and federal levels; the agencies sometimes impose burdensome qualification criteria; and/or they require rigorous monitoring and audit. IT&T start-ups do not have the time to devote to negotiating this tricky industry assistance process.

2.4. Lack of overseas investment

_Perception:_ Australia does not actively seek or entice overseas investment in major IT&T facilities.

_Fact:_ The federal government has appointed a senior business executive to help facilitate major infrastructure investments from MNCs, and to recommend incentives where appropriate. But it is not clear which agency is responsible for attracting initial inward investment.

Many government agencies are underfunded, face uncertain futures and seem to be
subject to never-ending reviews and audits. More “salesmanship” at the very highest political level is needed to grab the attention of the serious decision makers in the IT&T community.

Many MNCs have chosen Australia as a base for regional management, or as a call center location, and some have established R&D operations. IBM is now Australia’s largest exporter of IT&T products, but overall export-oriented activity by MNCs from Australia is woeful by regional standards.

2.5. A fragmented approach

*Perception:* The fragmented approach to potential investors by the federal government and the state governments is counter-productive and confusing.

*Fact:* We believe the issue of a fragmented approach is real and an impediment to investment. It seriously damages Australia’s credibility when a potential investor is courted by a mass of Australian suitors trying to outdo each other. Every state wants to be the next Silicon Valley. It is almost as if Australia was not one country, but a continent with several competing countries within it. There is also a tendency to politicize any achievement while in power, and belittle those achievements if not. Governments play to the media rather than paying sufficient attention to outcomes.

2.6. Location and size of IT&T market

*Perception:* Australia is a long way from anywhere and is a small market for IT goods and services.

*Fact:* In the global quest for IT&T investment, location is a major factor. In the early 1960s, Singapore was a poor country, with two million people. Today, the Singaporeans are the “Swiss of Asia”, with a higher per capita GDP than Australians. Located in the very center of dynamic and populous South East Asia is one of the major reasons for this transformation.

In terms of physical distance, Australia is an isolated locale, and has been disadvantaged as a result. But distance is not everything it used to be (see www.deathofdistance.com), with the Internet and a global phone system making distance less and less relevant. Despite this, hardware needs to be shipped, and Australia’s physical location means it has to offer some compelling reasons why an export-oriented hardware or chip industry should be located in Australia. Integrated logistics with an international airport, comparatively inexpensive skilled people, cheap land, plenty of water and a stable environment are the factors that can be brought to bear on this problem.

Regarding market size, few Australians even would know that the economy is the world’s 14th largest, and that the Australian and New Zealand economies are together the equivalent of Malaysia, the Philippines, Singapore and Thailand combined. In US dollars, Australia is still the second-largest market (after Japan) for IT&T goods and services in Asia/Pacific.

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1 In terms of GDP, See World Competitiveness Yearbook, IMD International, Lausanne, May 1998.
2.7. Poor work ethic

_Perception:_ Australia is a great place to go on vacation, but the work ethic is poor.

_Fact:_ The tourism industry does a good job of marketing Australia as a place to relax and unwind, but not as a place where serious work can be done. The reality is that comparative studies show Australians work just as hard (and smart) as the nationals of most other developed countries; they are highly innovative (Australia claims eight Nobel prize recipients); and the country is recognized as a world leader in certain industries.

2.8. Racism

_Perception:_ Australia is a racist country, and the appropriate beachhead into Asia.

_Fact:_ A majority of people in South East Asia still believe that Australia has a white-only immigration policy (actually abandoned in 1975), while a substantial minority actually believe Pauline Hanson is Australia’s Prime Minister. Yet the fact is that Australia is a remarkable success story for the integration of immigrants from all corners of the world, and has fewer racial problems than any other country consisting of a large immigrant population.

2.9. Too much government

_Perception:_ Australia is a socialist democracy, with a big government mentality that fosters conservatism and risk-avoidance.

_Fact:_ Australia is a nation which includes many people who have taken enormous personal risks simply to secure residence status. It has a pioneer attitude, an optimistic air of ‘have a go’. Australia is also an egalitarian society. A relatively generous welfare system also creates social cohesion and less obvious extremes, with a reasonably low crime rate and an improved quality of living. There is no visible and obvious social underclass in Australia, few blighted wastelands of urban decay or dangerous areas of inner cities.

The country still seems ill at ease with the notion that people go into business, or take on the job of running large companies, with the aim of making money, usually lots of it. Executive salaries come under close media scrutiny, even though they are very modest when compared internationally. Reliance on government is an unfortunate national characteristic that exists to a large degree even within the local IT&T community. Surveys show time and again that before Australian business will move on issues such as Year 2000, or E-commerce, they will wait for government leadership and action. Local IT&T start-ups expend precious energy on courting government business and lobbying for some form of preferential treatment.

There is an enormous public service in Australia, which intrudes on commercial activity more than it should. The mentality of many bureaucrats is uncommercial and naïve, yet many in the public service have veto power over commercialization of innovation.
2.10. Antiquated labor practices

**Perception:** Trade unions are very powerful in Australia, and the country still has antiquated labor practices.

**Fact:** Australia has changed radically in the last 20 years, though the recent (1998) waterfront crisis shows that this perception is still grounded in some current realities. Americans in particular are obsessed on this point.

Most unions in Australia today work in cooperation with employers in their market segment to further common interests, and enterprise agreements ensure that the health of the company is paramount. Within the IT&T industries, union activity is marginal and not a significant factor to consider when determining investment strategies.

2.11. Not enough IT&T people

**Perception:** The Australian education system does not compare to systems in Asia/US/UK, and there are not enough ‘good’ people in IT&T in Australia.

**Fact:** While few centers of learning anywhere can compare to the very best in the US or the UK, the vast majority of Australian universities and schools are better than most elsewhere. The Australian system produces people who are individualistic, creative, resourceful and intelligent—all traits of the most competent, inventive and productive IT professionals. A surprisingly large number leave college or school able to speak at least one Asian language. The work force contains a higher ratio of people with tertiary qualifications than the US, the UK and any Asian country. Within the global IT&T industry, Australians are well regarded and are to be found working worldwide in most IT&T MNCs. Those who work in the industry are well aware that Australian subsidiaries of IT&T MNCs are regarded as pioneering, leading edge and usually successful operations. The people in those subsidiaries are generally regarded as brash but innovative and energetic. Australia has established a well-deserved reputation within the IT&T industry as an excellent testing ground for new technologies and vendor strategies such as channels, pricing, packaging, delivery, service and so forth.

2.12. Not enough IT&T innovation

**Perception:** There is little innovation in IT&T in Australia.

**Fact:** The lack of an IT&T manufacturing sector with an international profile is the main basis for this perception. However, it is reinforced by the fact that investment in core research and development (R&D) has dropped off in recent years due to changes in how much tax relief accrues from R&D investment.

Nevertheless, there continues to be plenty of IT&T innovation in Australia, in universities, in Commonwealth and industry sponsored research centers (the Distributed Systems Technology Centre in Brisbane as a notable example), in the Commonwealth, Science and Industry Research Organisation and the Defence Science and Technology Organisation. Unusually by international measures, Australia also has tremendous IT&T innovation within state and federal government agencies. There is also a good deal of innovation by small companies and individual technicians, and some by established locally owned IT&T companies.
However, Australia has failed to convert all this innovation to successful IT&T commercialized products or services. Twenty of the top 25 Australian IT&T companies are importers or implementers of overseas products and only a very small handful of Australian-owned companies export more than $50 million of IT&T products. Too often foreign companies reap what an Australian has sown (many promising Australian IT&T companies are acquired just as they enter the US or UK markets). This is a failure of vision, of marketing, of experience, of selling and of management. It may be partly a legacy from a former English tradition in which selling, marketing and business management were somewhat dirty words.

3. Discussion

These negative perceptions of Australia constitute a substantial impediment to its ability to take advantage of its current economic strength against the perceived weaknesses of several Asian economies. Such perceptions are not reversed in a short period of time. They take years, even decades, to eradicate. In some cases significant action is required because there is a real problem. In others the perception alone is the problem in need of change. In both cases, although, sustained public relations campaigns are required directed at potential investors by skilled and informed media experts.

While Australian governments cannot and should not attempt to solve all of the problems discussed—there is much for industry to achieve as well—many of them cannot be adequately addressed except at the governmental level. Indeed, some of the problems are caused by governments. The agenda for change includes significant taxation reform, an initiative currently in progress at the federal level; the creation of greater investment incentives; leadership in the use of IT&T; development of IT&T human resources through immigration reform, boosts for formal education and retraining in IT&T; continued labour market reform; legislative review and reform in relation to electronic commerce; and sustained overseas promotion of Australia and the Australian IT&T industry.

In turn, Australian business’s agenda should be to support the industry through investment and other support for entrepreneurial activity, through more committed commercialisation of ideas, through export focus, through increased competition and through effective cooperation with the government.

In the new economic order of global competition it is countries and their industries that have to be competitive and not merely individual firms. The Asian financial crisis has given Australia a second chance to make its IT&T industry competitive. Our research on negative perceptions of Australia indicates that if it is to grasp this chance, it must act swiftly to counter these perceptions and their corresponding realities otherwise the international financial and knowledge investment it needs to become an acknowledged international cluster will stay offshore.