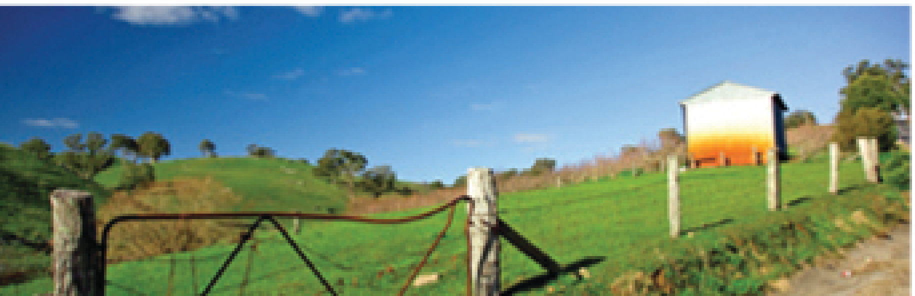
Australian Government

AUSTRALIA IN THE ASIAN CENTURY

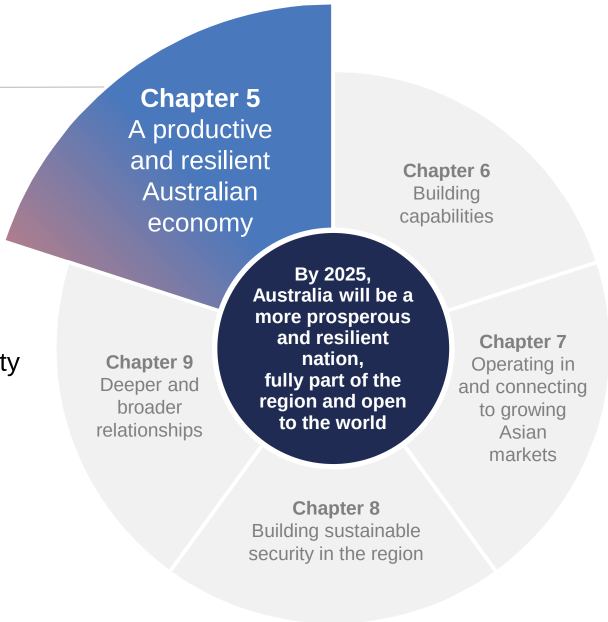
White Paper

October 2012



Chapter 5: A productive and resilient Australian economy

- skills and education
- innovation
- infrastructure
- tax reform
- regulatory reform
- environmental sustainability
- macro and financial frameworks



Key points

The Asian century requires us to focus on domestic economic settings, with ongoing attention to the productivity, resilience and sustainability of the Australian economy.

Australia is in a good position to capitalise on the opportunities that the rise of Asia presents, but there is more work to do.

We have made substantial reforms and investments across the five pillars of productivity—skills and education, innovation, infrastructure, tax reform and regulatory reform—and these efforts will continue.

Ongoing reform and investment in education and training will help boost productivity and participation in the workforce, and enhance Australia's and Australians' capacity to respond to and benefit from changing demand.

Australia's innovation effort should progressively align better with our comparative advantages, attract top researchers and improve regional and global partnerships.

Better planning and prioritisation of infrastructure and greater private sector investment will support a growing Australian population and increasing trade and investment with the region. The National Broadband Network gives Australia world-leading communications infrastructure to support this engagement.

Our tax system will be progressively reformed to better encourage investment in Australia and participation in the workforce, and to ensure our public finances remain sustainable.

Over time, we will remove unnecessary regulation costs on businesses and people.

Through careful management of Australia's natural assets, we can meet, more sustainably, Asia's and our own growing demands for resources.

Australia's macroeconomic framework—a floating exchange rate acting as a shock absorber for the economy, independent monetary policy targeting low inflation and a medium-term fiscal policy framework—remains crucial to success.

5.1 Introduction

This White Paper provides a long-term roadmap for Australian governments, business and the broader community to secure a more prosperous and resilient nation that is fully part of our region and open to the world. Addressing many of these issues has driven much of the Government's policy agenda over the past five years and it is important that our broad settings continue to be right.

Our roadmap for the Asian century is ambitious. We envisage a nation with sustainably rising living standards, where all Australians enjoy a good quality of life. Crucial to Australia's success will be lifting productivity growth.

Irrespective of how the Asian century evolves, Australia's prosperity will come from building on our strengths, reinforcing the foundations of our society and our productive, open and resilient economy at home. We have made substantial reforms and investments across the five pillars of productivity—skills and education, innovation, infrastructure, tax reform and regulatory reform—and these efforts will continue.

Complementing these five pillars are efforts to ensure environmental sustainability and strong macroeconomic and financial frameworks, plus ongoing policies to increase workforce participation and create a fairer and more inclusive Australia (Chapter 6).

Success in the Asian century requires a whole-of-Australia effort, with businesses, communities and governments being partners in a transformation as profound as any that have defined Australia throughout its history.

The private sector drives the lion's share of productivity gains when firms and businesses do more with the resources they have and can respond to emerging opportunities. Governments have an important role in creating the conditions for businesses to boost their productivity.

In coming decades, Asia's economic rise will shift the centre of global economic activity closer to Australia. This, along with a large and growing Asian middle class, will bring further opportunities (chapters 2 and 4).

First, there are opportunities in the strong investment growth in Asia, both in building and financing infrastructure, and expanding human capital through education and training.

Second, enabling closer economic and social integration across the Asian region brings opportunities in network infrastructure such as telecommunications, logistics and financial systems.

Third, a broad set of opportunities will arise from the expanding consumer market, including niche manufacturing, creative and professional service industries, health and aged care, tourism and agriculture.

Fourth, within the challenges of environmental sustainability and population ageing likely to be faced in Australia and across the region, there are opportunities for innovative solutions to address environmental constraints, urban planning and regional development, and to improve health, aged care and other services.

Australian businesses need to remain competitive and resilient to secure these opportunities, which will provide wealth and jobs for Australians. We have already begun the process of adapting to drive future growth. Sound economic frameworks, a history of good decisions and reforms, Australia's comparative advantages and our willingness to engage with the Asian region have put us in a strong position.

Continuing our focus of recent years, we will work to raise Australia's productivity performance as it will be the main driver of higher living standards—especially against a backdrop of falling productivity growth in the early years of the 21st century, the pressures of an ageing population, and the likely decline in Australia's terms of trade over the medium term, as the global supply of resources continues to increase.

We will ensure that Australia's economy remains strong, resilient, diverse, productive and on a sustainable footing.

5.2 Building a highly skilled and productive workforce

We are committed to building a highly skilled, educated and productive Australian workforce. All Australians need the opportunity to acquire skills and education in order to fully contribute to and participate in the economy. This includes securing the skills needed for the jobs of the future.

Education and training are crucial to Australia's future productivity. The greater the skill level of each worker, the higher the potential productivity of the workforce—a highly educated and skilled workforce supports innovation, the spread of technological advances and the accumulation of physical capital (Australian Government 2010). Rising educational qualifications can also boost productivity by improving technical or problem-solving skills (Productivity Commission 2008). Enhancing the skills and attributes of Australians will be fundamental for seizing the opportunities from the rise of Asia, including greater capacity to innovate and adapt.

Education and training also shape the prosperity of individuals and families, influencing their earning potential and improving future labour force participation. Higher literacy and numeracy skills are strongly correlated with higher workforce participation and earnings (Shomos 2010). As Australia adapts to the changes that will occur, we need to equip people with the skills to take advantage of the shifts towards higher skilled, higher wage jobs, which could potentially grow at around 1.6 times the rate of low-skilled jobs to 2025 (AWPA 2012).

This has driven the investments and reforms we have made so far—from early childhood education to universities and training systems. Reforms to higher education have included the uncapping of the number of public university places from 2012 to enhance the overall skill level of the workforce and to equip students to become effective participants in the labour market of tomorrow. Our policies are designed to ensure that the future training system is responsive to the needs of Australian industry and the economy and will provide graduates with relevant qualifications and a better chance of securing employment.

We have already made large investments in schools to boost the capability of school-age children. The recently announced National Plan for School Improvement also aims to help every Australian child get a world-class education, no matter where they live, the school they attend, or their family background. The aim of the plan is to make sure that Australia is in the top five countries in the world in reading, writing and maths by 2025 (Chapter 6).

> *National objective*
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> 1. All Australians will have the opportunity to acquire the skills and education they need to participate fully in a strong economy and a fairer society.

Our aim is to have early childhood education, schools, universities and training systems among the best in the world. The importance of this agenda to boosting Australia's productivity and ensuring people have the capabilities to take full advantage of the Asian century is explored in more detail in Chapter 6.

Australia's education and training systems need to be flexible and able to adjust the quantity and mix of services they provide as needs and individual preferences change. This will help ensure that the workforce skills match those demanded by employers.

Our efforts to boost workforce participation through skills and education attainment (Chapter 6) are complemented by other measures intended to remove barriers for those groups currently under-represented in the workforce—through child-care assistance, paid parental leave, employment services and tax reform.

Governments can help people make the most of the Asian century by promoting fair and responsive workplaces. As the structure of the domestic and international economy transforms, flexibility in the labour market and collaboration between employees, employers and unions will help people find new and rewarding employment opportunities and boost productivity.

We will continue to develop, through the *Fair Work Act 2009*, and ongoing partnership, a workforce culture in which employees, employers and unions collaborate for continuous improvement and productivity growth.

5.3 Enabling new patterns of innovation

Australia's ability to create, disseminate and apply knowledge is important to our wealth and prosperity. Australian businesses, in particular small and medium-sized enterprises are, and will continue to be, the engine room of innovation—supported by the efforts of research organisations and governments. An ability to innovate, in terms of finding better ways of doing business, developing new business models and tailoring products for a changing market will be a primary source of competitive advantage in the Asian century.

Through their continuous learning and experimentation with employees, suppliers and customers, businesses are the cornerstone of innovation-based economies and the main avenue through which the benefits of innovation are shared.

Most innovation takes place in response to market pressures and opportunities, with profit and competition—both domestic and foreign—important drivers (OECD 2007b and 2010a). Businesses gain competitive advantage by commercialising new products, processes or services faster than their competitors. Australian businesses that innovate are twice as likely to report increased productivity as businesses that do not innovate. Innovating businesses are also 40 per cent more likely to report increased profitability (ABS 2011d).

National objective

2. Australia will have an innovation system, in the top 10 globally, that supports excellence and dynamism in business with a creative problem-solving culture that enhances our evolving areas of strength and attracts top researchers, companies and global partnerships.

Governments, in general, have a role in creating the conditions for innovation through fostering competition and the free flow of products, people and ideas both domestically and internationally. Falling barriers encourage businesses to seek new and better production processes, while giving them greater access to new ideas and markets. These conditions can be as important as specific innovation policies and programs.

We provide direct support for vital research—especially basic research that would not be done by the private sector—and create and enforce intellectual property rights. Investments in infrastructure and workforce capabilities help Australians to pursue knowledge and undertake research and development, and to use and adapt technology flowing from other countries (Chapter 6).

We are also helping to encourage innovation through our role as major providers and consumers of innovative products and services—driving innovation by demanding new and better inputs from the private sector and by developing better ways to deliver services in such areas as health, education, social welfare, defence and environmental management.

Overall, we provided direct support for science and innovation in the order of $8.9 billion in 2012–13. This included expenditure undertaken by Australian Government research institutions such as CSIRO, expenditure that supports business research and commercialisation, expenditure on research and research training in higher education institutions and cross-sectoral programs such as the National Health and Medical Research Programs and Cooperative Research Centres.

Another issue is the transfer of knowledge and ideas. The scope and speed of knowledge sharing are partly driven by intellectual property rights regulations: Australia's domestic intellectual property framework is consistent with obligations contained in relevant international agreements. We will seek to ensure that domestic and international laws strike the right balance between supporting the availability and use of intellectual property-based goods and services and protecting and promoting the development of new products and the delivery of new services.

Improving the flexibility of our innovation support

Our forthcoming Industry and Innovation Statement will articulate an ambitious industry and innovation policy agenda, providing a framework for industry to respond to the opportunities and challenges ahead and better linking businesses and research institutions through our national innovation system.

The pace and patterns of innovation are changing, with new centres of global creativity and innovation emerging, particularly within the region. The ways in which businesses innovate are also changing. Businesses are adopting new models of innovation, focusing more on better integrating internal activities, such as marketing, operations and design, and less on traditional research-intensive approaches. At the same time, they are more open to external ideas and the possibility of new routes to market, engaging with a larger number and wider range of collaborators (Australian Government 2011a; Cutler & Company 2008; Banks 2008).

Australia's innovation support structures need to take account of these changes.

While some important measures to encourage innovation, such as the Research and Development Tax Incentive, are broadly based, many are small, targeted to specific areas and spread across a number of programs, organisations and levels of government. For example, there are more than 200 initiatives to support business innovation (CSTACI 2011). About one-third of these are administered by the Australian Government, while States and Territories administer the remainder. This makes it harder to respond to change and build the scale and flexibility needed to ensure innovation efforts focus on areas of comparative advantage.

We are already working with the States and Territories to improve the consistency and improve the overall accessibility and efficiency of innovation programs across Australia. We will build on these efforts to avoid overlap and progressively increase our flexibility to respond to current and likely future areas of comparative advantage.

By focusing on areas in which Australians can be national, regional or global leaders, Australia can build on its strengths to better attract collaborative partners, top researchers and access to world-class facilities, including from within the region. Researchers and industry have begun to identify such advantages and to collaborate to gain scale and network benefits (Box 5.1). The CSIRO Global Precincts framework aims to encourage clustering of expertise and innovations across business, academic institutions and government.

Box 5.1: Focused innovation efforts—the CSIRO experience

CSIRO has shifted towards specialist research hubs, or precincts, that will concentrate specialist research and development in specific locations.

CSIRO has identified five research precincts in Australia with the potential to achieve global standing and scale. The benchmark was set at 3,000 researchers and more than $1 billion in capital and facilities. These precincts are expected to provide the scale and incentives to attract top researchers, funding, facilities and partnerships with business here and overseas.

- The Canberra precinct will focus on plant and agricultural sciences, combining science and science policy to help shape Australia's innovation system.
- Brisbane's Boggo Road precinct will become the world's largest environmental sciences hub.
- Resources sciences will be concentrated at Perth's Kensington precinct, forming an internationally recognised centre for minerals and energy research.
- The vision for Melbourne's Clayton precinct is to be one of the world's top three advanced materials research facilities and to support a sustainable and vibrant future for the manufacturing sector.
- Parkville precinct in Melbourne will integrate world-class health care, research and education to translate research discoveries rapidly into clinical practice, and nurture life sciences and biotechnology development.

Source: CSIRO (2011).

The National Research Investment Plan, being prepared by the Australian Research Committee, will support efforts to build scale and identify strategic priorities. The plan aims to guide and coordinate our future research investment by setting out a framework that enables Australians to develop the quality and scale of research capability needed to engage with the best global research teams. It will ensure that business and non-business end-users can draw on that research to create economic, social and environmental benefits here in Australia.

Tapping into new centres of global creativity

Global innovation activity is shifting towards Asia. Asia's large markets are becoming increasingly attractive places for multinational companies to introduce and develop new technologies and products. Asia's capabilities in science and research are also increasing rapidly, adding to global scientific output and the pace of technological progress worldwide (Chapter 2).

Australia has a strong international reputation as a community of early adopters of technology and social innovators, which provides a good foundation for developing and testing innovations.

The rollout of the National Broadband Network (NBN) will support innovation by making it easier for people to interact. Innovation often flows from interactive and cumulative processes drawn from an array of learning and problem-solving activities. The NBN is a vital piece of Australia's tool-kit for becoming a more sophisticated, knowledge-based economy.

Building on the demonstrated ability of Australians to be creative and excellent design thinkers, Australia is well placed to form international links that will become increasingly important in staying abreast of international research and technologies across all frontiers.

There are great opportunities for those Australians in the Asian century who tap into the creative economy from culture to design.

By strengthening regional links over time, Australia can link into Asia's innovation efforts and absorb overseas know-how and technology in two main ways. First, engagement through investment and trade helps transfer technology and ideas (Chapter 7). Multinational companies build modern facilities in Australia and join our innovation system, while Australian businesses directly invest overseas and become part of global and regional value chains. This facilitates the exchange of state-of-the-art machinery, equipment and processes.

Second, Australia can benefit through collaboration and other people-to-people links and connections with top research centres at the technological frontier. As Asia grows as a global science and innovation hub, expanding long-term research and innovation partnerships has the potential to produce significant dividends (Chapter 9).

Supporting financing for innovation

The translation of Australia's good ideas into products, processes and new competitive businesses has often involved funding from government, particularly in the early phases on the path to commercialisation.

Increasingly, the focus is on attracting private sector capital. This involves efforts to increase certainty for investors and entrepreneurs—including through effective intellectual property, corporate and financial market regulation—and leveraging off government investment in science and technology.

We currently provide a range of financial and tax-based support for venture capital, which is supplemented by smaller-scale support from publicly funded research organisations and State and Territory governments. This has seen the establishment of the Commercialisation Australia initiative that assists researchers, entrepreneurs and innovative businesses convert ideas into successful commercial ventures.

The $1.2 billion Clean Technology Program provides incentives for business to reduce emissions and invest in clean energy technologies. The Australian Renewable Energy Agency and $10 billion Clean Energy Finance Corporation will drive research and development into, and the commercialisation of, clean energy technologies. These measures provide strong incentives and opportunities for the private sector to directly participate in clean energy projects, through partnering and co-funding arrangements.

5.4 Delivering the infrastructure to support opportunities

Infrastructure provides the backbone for business efficiency and helps people both engage in productive work and enjoy greater amenity. All businesses and households require reliable and affordable water and energy. Road, railway, port, airport and telecommunications facilities connect businesses with markets, innovators with ideas, people with goods and services, and commuters to their workplaces.

Increasing economic and social links with countries in the region will add to existing infrastructure demands as more goods, services, people and ideas flow within and across national borders.

Considerable reform has occurred, but challenges remain

In past decades, successive governments at all levels have reformed the use of essential infrastructure by encouraging greater private sector involvement and relying more on markets to determine when, where and how infrastructure needs are met. This process has delivered real benefits, including gains in productivity and reduced costs for users of some services.[1]

We greatly increased our investment in nationally significant infrastructure, with $36 billion of Commonwealth funds being invested nationally from 2008–09 to 2013–14 through the Nation Building Program.

In addition to record funding of roads, rail tracks and ports, we have made a concerted effort to rethink the way future infrastructure needs and projects are identified and different ways to fund them. Recognising the need for more effective planning, we established Infrastructure Australia in 2008. Infrastructure Australia's main role is to assist governments allocate infrastructure spending toward the right projects. It is also helping to drive the development of a long-term, coordinated national approach to infrastructure planning and investment.

Infrastructure Australia has focused on an ambitious planning program including the development of the National Ports Strategy, National Land Freight Strategy and National Public Transport Strategy. The strategies will be crucial to developing a long-term pipeline of infrastructure projects attractive to public and private investors, and to ensuring that the right investments occur at the right time. Our investments are aimed at improving productivity, efficiency and reducing congestion. Inadequate infrastructure can hamper productivity and the efficient movement of people and

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1 Average telecommunications charges fell by more than 20 per cent between 1990 and 2003 (Productivity Commission 2005). More generally, the Productivity Commission's review of National Competition Policy reforms found that productivity gains in the six major infrastructure sectors which underwent most reform permanently added at least 2.5 per cent to GDP over the period from 1990 to 2003, raising average income in all but one of 57 regions across Australia and in all income groups (Productivity Commission 2005).

goods, including through the impacts of congestion that cost Australia's economy billions of dollars.

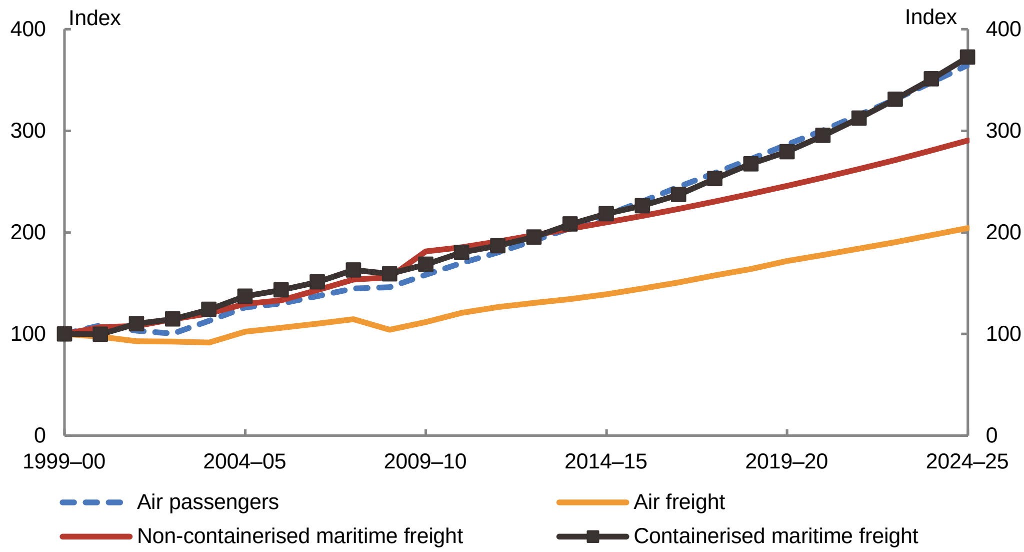
Despite these achievements, reform challenges remain across all sectors. This is a particular issue for State and Territory governments, which have responsibility for much of this infrastructure.

Transport infrastructure is showing signs of strain. Traffic congestion is growing in capital cities and infrastructure bottlenecks are emerging in some of Australia's major ports. At Sydney's Kingsford Smith Airport, limitations of existing infrastructure will start to have a sizable effect on airport operations from around 2015.

In response to the growing capacity constraints around the Kingsford Smith Airport, we commenced a detailed investigation into the suitability of potential sites for a second Sydney airport, including conducting preliminary economic, social and environmental studies. And we have supported the development of the Moorebank Intermodal Terminal in Western Sydney. This involves developing freight terminal facilities linked to Port Botany by rail, increasing Sydney's rail freight capacity and reducing road freight on Sydney's congested road network.

These strains will grow as demand increases. By 2025, our airports are expected to be handling three times as many international passengers and our ports three times as much containerised freight compared to the start of the decade, while air and non-containerised freight volumes are expected to double (Chart 5.1).

Chart 5.1: Projected flows of people and goods to and from Australia



Note: Air passengers are the number of international passenger movements to and from Australia; air freight and maritime non-containerised freight is the total of imports and exports, measured in tonnes; maritime containerised freight is the total of imports and exports, measured in twenty-foot equivalent units.
Source: Bureau of Infrastructure, Transport and Regional Economics.

If left unchecked, this will erode productivity, the liveability and competitiveness of Australia's cities, and our capacity to connect with the region. The avoidable costs of road congestion alone are likely to increase from around $9 billion in 2005 to around $20 billion by 2020 (BTRE 2007).

Challenges are not confined to transport infrastructure.

In water supply, governments still dominate service provision and there is considerable scope to improve efficiency. Decisions on urban water supply and use—many intended to deal with growth in demand and a lengthy period of drought—have not always focused on providing services at the lowest cost. This has led to misdirected investment and higher prices that could persist for decades (Productivity Commission 2011a).

Australia's energy sector is one of the most reliable and low-cost suppliers in the world (Infrastructure Australia 2008), but reforms need to establish truly national electricity and gas markets and promote innovative and more efficient ways to supply and use energy. Rising electricity network costs has been the main contributor to rising electricity prices in recent years. Generation, transmission and distribution costs account for around 40 to 50 per cent of a typical household electricity bill and have, on average, increased by 18 per cent, 59 per cent and 30 per cent (respectively) from 2009–10 to 2011–12. These cost increases reflect replacement of ageing infrastructure and new investment in capacity for peaks in demand.

Ensuring that regulatory settings in Australia's energy market are right will help ensure that networks deliver efficient and cost-effective outcomes for consumers (Australian Energy Market Commission 2012). The Council of Australian Governments (COAG) has requested a report from the Standing Council on Energy and Resources on the next phase of national energy market reform for consideration by the end of 2012. Our forthcoming Energy White Paper will outline our blueprint for progressing domestic energy market reform. It is essential that regulatory settings in this area are closely monitored to remove any unnecessary costs for Australian businesses and households.

Better planning and prioritisation of new infrastructure projects

Better planning of infrastructure projects will be essential to creating the right investment conditions for new infrastructure projects to be supported. This will involve long-term planning to guide infrastructure priorities, options for structuring projects to attract private capital and expanding the investment pipeline. A nationally coordinated approach to infrastructure will deliver greater long-term certainty for constructors, owners, investors and, of course, users.

> *National objective*
>
> 3. Australia will implement a systematic national framework for developing, financing and maintaining nationally significant infrastructure that will assist governments and the private sector to plan and prioritise infrastructure needs at least 20 years ahead.

Infrastructure Australia has delivered significant outcomes to date, such as an infrastructure audit and development of a priority of pipeline projects and a policy and guidelines for public–private partnerships.

Yet, more can be done, particularly in defining priorities and ensuring strategic coherence for nationally significant infrastructure investment in agreement with the States and Territories.

Through COAG, governments have the opportunity to develop a nationally agreed set of infrastructure priorities. Some States and Territories have already released, or intend to release, long-term infrastructure plans. We will take these plans into account when considering our investment priorities in nationally significant infrastructure. Adopting a common framework and timeline across jurisdictions will allow for the development of a clear and strategic national hierarchy of infrastructure plans.

We will work, including through Infrastructure Australia, with States and Territories, the private sector and academic institutions to expand existing infrastructure plans by creating a long-term national infrastructure strategy that focuses on corridor planning, cross-jurisdictional networks and projects of national significance.

Such a strategy would be useful in developing a longer-term pipeline of projects and in reserving and developing nationally significant land corridors that will assist future project commencement. This approach will enhance the planning processes currently underway through Infrastructure Australia.

One factor in considering infrastructure needs is the level and distribution of Australia's future population. So far, there has not been a systematic process to ensure that the suite of localised infrastructure plans combine to capture the total national projected population. Over time, we will work to better coordinate and analyse data on the distribution of projected population growth throughout Australia and its implications for government services including infrastructure provision.

Even with better targeting of projects, simply building more publicly funded infrastructure will not be fully effective or sustainable. Not only would it be extremely costly and difficult in an environment where government faces many demands, building more infrastructure in highly developed cities like Melbourne and Sydney is not always technically feasible.

Part of the solution to Australia's infrastructure challenge is also to explore ways to better use existing infrastructure, including through adopting new technology that improves consumer choice through providing more information and intelligent transport systems (Infrastructure Australia 2008). We have implemented a number of initiatives to support smart infrastructure, including investing in the Australian Rail Track Corporation's Automatic Train Management System Trial.

Boosting private sector involvement in infrastructure

Governments alone cannot meet the infrastructure needs facing Australia. Privately provided infrastructure is necessary and desirable. Private sector involvement can improve efficiency through greater accountability, cost effectiveness and financial discipline (OECD 2008a).

To ensure a sustainable program of infrastructure investment, we will continue to develop new ways to attract and retain private sector involvement.

The 2011–12 Budget included several measures that reduce barriers to private investment in nationally significant infrastructure, such as removing impediments to companies carrying forward losses in the tax system, and indexing losses to ensure that their values are maintained over time.

And in May 2012, we launched the National Infrastructure Construction Schedule. For the first time, information on all major infrastructure projects worth $50 million or more, planned or delivered by all governments, and encompassing energy, water, transport, communications and social infrastructure, has been brought together. This portal provides the private sector with more information about future opportunities for linking with major government infrastructure projects in Australia.

Good regulatory and policy frameworks—including contractual arrangements—are valuable in encouraging private investment in infrastructure. We will continue to sharpen the frameworks governing infrastructure provision and use across all classes of infrastructure, including promoting greater competition in retail energy markets, ensuring energy network investment is efficient and reviewing third-party access regulation.

Mechanisms to encourage superannuation funds to invest in infrastructure and to simplify public–private partnership (PPP) processes will also help encourage greater private sector involvement (IFWG 2012). Our Stronger Super reforms will assist by driving competition and consolidation in the superannuation sector. With greater consolidation, superannuation funds will be in a better position to invest in infrastructure assets.

The high cost of PPP bidding processes—and procurement costs across all forms of infrastructure procurement—has been identified as a barrier to private sector involvement in the financing of infrastructure projects. We are working with the States and Territories to improve approaches to managing demand forecasting and patronage risk for infrastructure projects. Work designed to remove incentives to overbid for toll-road concessions has been completed, drawing on international experiences. Addressing over-optimistic bidding is important to successfully engaging with the private sector to help fund and finance our major motorways. We will progress PPP reform through the National PPP Working Group.

Responding to land-use change

The competitiveness of cities is becoming increasingly important as modern, service-based industries become more important drivers of growth. These industries are far more flexible in their choice of location than industrial enterprises.

One factor affecting the productivity of cities is planning and zoning arrangements—an area of State and Territory government responsibility. States and Territories are working towards establishing simpler and more flexible land-use controls to reduce red tape, enhance competition, help free up land for a range of uses and give a greater role to the market in determining what those uses should be.

If Australia is to fully exploit the opportunities afforded by the Asian century, our planning regimes need to anticipate, rather than react to, change. The opportunities in mining, agriculture and tourism across the country will require State and Territory planning systems to be responsive to investment in these areas, including by ensuring that planning rules and practices do not inadvertently impede businesses or access to finance.

We will continue to work with the States and Territories to provide transparent and forward-looking analysis focused on improving the productivity, amenity and liveability of Australia's cities. This work will be advanced through relevant forums such as the Standing Council on Transport and Infrastructure.

5.5 Communications infrastructure

The internet has produced productivity benefits across the economy by allowing businesses to sell, locate and purchase supplies more easily, maintain real-time inventories and deal with customers more efficiently. The NBN will take this a step further.

Businesses and governments enjoying internet-related productivity benefits estimated at $27 billion in 2010, the internet is now essential infrastructure for the Australian economy (Productivity Commission 2011b). The digital economy is influencing almost all sectors of the Australian economy, from heath care to mining services. And a greater share of Australian spending is now occurring online—estimated at 4 per cent and rapidly growing (Productivity Commission 2011b). Importantly, it is also the vehicle for a large amount of modern innovation and new forms of social interaction.

A faster and more reliable network in Australia is necessary to grow online innovation and ensure continued access to the exploding global internet economy.

National objective

4. Australia's communications infrastructure and markets will be world leading and support the rapid exchange and spread of ideas and commerce in the Asian region.

Our reforms to the telecommunications sector through the rollout of the NBN and the structural separation of Telstra—separating the wholesale provision of telecommunications infrastructure from the retail provision of telecommunications services—provide the opportunity to create a level playing field and enable competition and investment to grow across the economy.

The NBN will provide high-speed broadband access for 100 per cent of Australian premises. Ninety-three per cent of homes, schools and businesses will get access to a fibre network capable of delivering broadband speeds of up to one-gigabit per second. The remaining 7 per cent of premises will be served by a combination of next-generation fixed wireless and satellite technologies providing peak download speeds of 12 megabits per second (NBN Co 2011).

The provision of ubiquitous, high-speed and reliable internet connections has the potential to change almost all facets of work and life. Broadband will bridge geographical barriers to Asian markets by allowing all Australian businesses and households to conduct more of their activities online.

The NBN will offer benefits across business, health, education and other services. High-performing videoconferencing will boost collaboration between researchers, community groups, schools and universities in Australia and with those in the Asian region.

The application of the NBN will expand over time and so we will continue to monitor potential barriers to its use along with barriers to expanding into new technological markets.

We are helping realise the productivity gains from this physical infrastructure and boost online security. These reforms and initiatives support the National Digital Economy Strategy, which aims for Australia to be a leading digital economy by 2020. Building on this, we are developing Australia's first White Paper on cyber and digital economy policy, which will provide an integrated policy framework to enable Australia to realise the benefits of the digital age—including security, telework, skills and encouraging innovation.

5.6 Building a strong, fair and sustainable tax and transfer system

The Asian region is becoming increasingly integrated. As Australia becomes fully part of the region, the choices businesses make about where to invest and do business, and some people's choices about where to work, will become more sensitive to tax policies.

> *National objective*
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> 5. Australia's tax and transfer system will be efficient and fair, encouraging continued investment in the capital base and greater participation in the workforce, while delivering sustainable revenues to support economic growth by meeting public and social needs.

We have introduced a range of tax reforms to support businesses to invest and adapt to take advantage of the Asian century. These include the instant asset write-off for small businesses which will help to simplify the tax system and promote new investment, and the loss carry-back scheme, which will help companies to retrain, retool and reinvest to take advantage of new opportunities.

We have also acted to encourage workforce participation and ensure a fair return for effort through significant cuts to personal income tax. We provided $47 billion worth of personal income tax cuts in our first three Budgets, and have tripled the tax-free threshold from $6,000 to $18,200. Increasing the tax-free threshold will have the added benefit of making the tax system simpler, freeing up to 1 million Australians from having to lodge a tax return.

This reform will continue as we increase the tax-free threshold to $19,400 from 1 July 2015. In future years our first priority will be to increase the tax-free threshold even further, to at least $21,000, and to remove the Low Income Tax Offset entirely. This significant tax reform would mean better and more transparent rewards for work, which would mean more Australians in work.

The transfer system also has a significant impact on incentives to participate in the workforce. Our reforms to the transfer system will improve employment incentives for unemployed people, single parents, young people who are not earning or learning, and people with a disability. For instance, we will be reducing the taper rate for single parents on Newstart Allowance and increasing the amount of income that young people on Youth Allowance can earn before they lose benefits, which will substantially reduce some effective marginal tax rates.

As the Australian population ages, and as the impacts of Asia's economic rise flow through our economy, it will become more important than ever that we remove barriers that could prevent older Australians who want to remain in the workforce from doing so, especially given improvements in life expectancy and health. With this in mind, we have introduced new training opportunities and support for older

Australians who wish to continue to work, and have also reformed the eligibility rules and qualifying age for the Age Pension. We will also remove the maximum age limit on the Superannuation Guarantee, to increase the incentive for workers aged 70 and over to remain in the workforce.

At the same time we are delivering a better standard of living in retirement for current and future generations of Australians, with our historic increase in the base rate of the Age Pension and by gradually increasing the Superannuation Guarantee from 9 to 12 per cent from 1 July 2013 to 1 July 2019.

The efficiency and fairness of the tax concessions provided for superannuation contributions have also been improved, by increasing the concession received by low-income earners and reducing the tax concession received by very high-income earners. This will ensure they are more in line with the concession received by average income earners. These reforms, together with our Stronger Super reforms to improve the efficiency and integrity of the superannuation system, will be particularly important as Australia's superannuation savings pool continues to expand and as the system matures. Australia's younger generations are benefiting from the Superannuation Guarantee through their entire careers.

These are significant reforms to encourage investment in the capital base and participation in the workforce, while at the same time improving the fairness and efficiency of the tax and transfer system. However, it is important that this direction of reform continues. This will require concerted effort from all levels of government to maximise the efficiency of the tax system.

The Minerals Resource Rent Tax (MRRT), which seeks to tax economic rent from the extraction of Australia's mineral resources, is a good example of the reforms that have been made. Whereas state royalties are an inefficient means of raising revenue which distort investment decisions by penalising all mines, the MRRT is an efficient profits-based tax. The MRRT is one of nearly 40 reforms we have announced since May 2010 that progress recommendations in the Australia's Future Tax System Review. These reforms span personal tax and transfer payments, business tax, the superannuation system, environmental and social taxes, and tax system governance.

Tax reform is no easy task. It has the potential to alter the actual and perceived fairness of the tax system, its complexity, and how widely opportunity and risk are shared. Important discussions about tax and transfer reform have occurred through processes like the Business Tax Working Group, the Superannuation Roundtable and the Not-for-Profit Sector Tax Concession Working Group. We will continue to use working groups and roundtables for national conversations in the years to come.

At the same time, ageing and rising societal expectations are likely to put continued pressures on budgets. As with our previous reforms, future tax and transfer reform will need to be undertaken in a fiscally responsible way that keeps to our medium-term fiscal strategy and ensures the ratio of tax-to-GDP remains, on average, at or below the level that existed in 2007.

We will continue to examine, in consultation with the Australian community, ways to reform the company income tax system—paid for by savings from within the business tax system—in order to boost real wages through improved productivity. Business tax reform is a long-term agenda and our efforts must be mindful of the need to ensure Australia remains an attractive destination for globally mobile capital. This will become an increasing challenge for open and integrated economies such as Australia. Future discussion may need to take place on more fundamental changes to the company tax base.

Existing State and Territory tax systems rely heavily on inefficient taxes and structures, such as stamp duties and insurance taxes, that are not well placed to serve the Australian community over time. States and Territories will need to identify ways to phase out their inefficient taxes and make better use of their efficient tax bases, through processes such as the State tax plan being developed by the New South Wales and South Australian Treasurers, which provides States with a process that can explore how to better create a more efficient tax base within their own taxation systems. The ACT Government has recently shown that significant, progressive tax reforms can be proposed, without financial assistance from the federal government, if States and Territories are willing to make better use of efficient tax bases.

It will be important for the national debate about tax and transfer reform to be informed by independent research, which is why we are establishing a Tax Studies Institute. In additional to providing policy-relevant research about goals and transitional pathways, the Institute will also provide opportunities for collaboration and exchange across the region.

Tax and transfer reforms will be complemented by our broader participation agenda (Chapter 6).

5.7 Reforming regulation

Regulation covers almost all aspects of Australian social and economic activity and, if poorly designed, can act like a tax on business, raising costs and stifling innovation (Australian Government 2012d). We have frameworks to improve the quality of regulations and continue to refine them. But even regulations that were initially appropriate and cost-effective may not continue to be so over time. Markets and technologies change, as do people's preferences and attitudes. And the accumulation of regulations leads to interactions that raise costs (Productivity Commission 2011c).

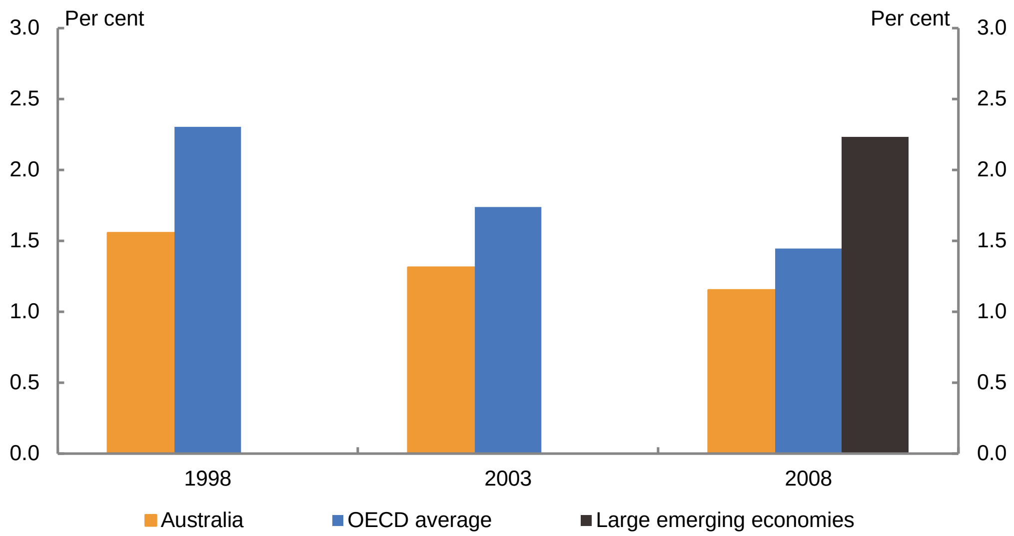
Better quality regulation decreases red tape, lowers business costs and increases labour mobility. Regulatory reform also removes regulatory barriers to competition, which, as is widely recognised, increases the incentive for firms to be innovative and boost productivity. An effective and consistent regulatory environment can increase investment confidence and make Australia attractive to globally mobile capital.

COAG's National Partnership Agreement to Deliver a Seamless National Economy has delivered a range of reforms to regulation and competition over the past few years, including the national trade measurement system, the national health workforce registration and accreditation scheme, the Australian Consumer Law and related product safety reforms, and phase one of the consumer credit reforms. And there are more gains to be made—fully implementing just 17 of the 27 deregulation priority reforms being delivered under the National Partnership could ultimately provide cost reductions to business of around $4 billion per year and, after an adjustment period, increase GDP by over $6 billion per year in the longer term (Productivity Commission 2012a). The national occupational health and safety laws and the National Occupational Licensing System are two examples of the important reforms remaining.

As a relatively open and globally integrated economy, Australia will face an ongoing task to sharpen regulatory frameworks and reduce unnecessary burdens. The fact that many other countries are now reducing regulatory barriers and seeking to exploit the same opportunities in Asia adds to this need (Chart 5.2).

Chart 5.2: Australia's barriers to entrepreneurship are falling, but so are other countries'

Scale from 0 (least restrictive) to 6 (most restrictive)



Note: The indicator encompasses 'regulatory and administrative opacity' such as licences, simplified systems for permits such as one-stop shops, communication, simplification of rules; 'administrative burdens for start-up' and 'barriers to competition'. See glossary for definitions of country groupings.
Source: OECD (2008b).

National objective

6. Australia will be among the most efficiently regulated places in the world, in the top five globally, reducing business costs by billions of dollars a year.

Through COAG, we will work with States, Territories and key stakeholders to undertake an ambitious regulatory reform agenda to improve competition and productivity and reduce business costs by billions of dollars a year.

Our aim is that, by 2025, Australia will be in the world's top five for ease of doing business.

We will progress six priority areas of major reform to lower costs for business and improve competition and productivity, as agreed by COAG, following discussions at the Business Advisory Forum (COAG 2012):

- addressing duplicative and cumbersome environmental regulation
- streamlining the process for approvals of major projects
- rationalising carbon reduction and energy efficiency schemes
- delivering energy market reforms to reduce costs
- improving assessment processes for low-risk, low-impact developments
- best-practice approaches to regulation.

Related reforms will aim to reduce regulation, particularly for small and medium-sized enterprises, by removing overlaps in Commonwealth and State and Territory reporting obligations and expanding the use of online business reporting.

To support these reforms, a new National Productivity Compact on competition and regulation is being developed between the Commonwealth, the States and Territories and business. The Compact will set out principles for effective regulation and reform, and will include commitments for continued consultation with business on a new reform agenda and improved regulatory processes at all levels of government, as well as measures to ensure the hard won benefits of new national frameworks are sustained over time.

We will work through other COAG forums to pursue reform opportunities, such as those already identified by the Business Regulation and Competition Working Group and the Standing Council on Federal Financial Relations. The focus will be on high-value reforms and working in close consultation with States and Territories and with the business community.

5.8 Charting a sustainable course

Australia is rich in natural capital and environmental assets. From them Australia derives a large share of our wealth, including in agriculture, mining and tourism (Australian Government 2010). Australia has the world's largest economically demonstrated reserves of a number of resources, while the Great Barrier Reef alone adds more than $5 billion to the Australian economy each year (State of the Environment Committee 2011).

As the urban middle class in Asia grows and demands more diverse and better quality goods and services, demand for Australia's minerals, agricultural commodities and tourism services is set to increase (Chapter 4). Growth in Australia's own population will put further pressure on our natural resource base.

But Australia's environment is crucial: it regulates the climate, purifies water, absorbs and transforms waste, prevents disease and provides the genetic resources that are the basis for many medicines (DEWHA 2009).

Australians need to manage our environmental assets sustainably to ensure the wellbeing of future generations is at least as good as ours. That means carefully considering the varied and often competing roles environmental assets play in Australia's economy and society.

Many of Australia's environmental assets are already under threat. The clearance of vegetation and degradation of natural habitats are threatening the continent's rich biodiversity. Water scarcity and pollution, and over time climate change, will add to these pressures. The costs to the Australian economy and the welfare of all Australians if these assets degrade further will be large. They are expensive, and sometimes impossible, to recover.

> *National objective*
>
> 7. The Australian economy and our environmental assets will be managed sustainably to ensure the wellbeing of future generations of Australians.

We have put in place a number of environmental policies to redress and prevent further decline in the health of Australia's environmental assets. They include policies relating to climate change, biodiversity and water and soil management.

Acting on climate change

The world is warming, and high levels of carbon pollution risk environmental and economic damage. Australia is a hot, dry continent, so we face acute risks. Studies indicate that warming of more than two degrees Celsius runs the risk of overwhelming the capacity of many of the world's natural ecosystems (Hennessy et. al 2007).

The Clean Energy Future legislation is a comprehensive strategy to cut greenhouse gas emissions, introduce a carbon price, invest billions of dollars in renewable energy, transform the energy sector away from high-emissions sources, and store millions of tonnes of carbon in the land through better land management. As well as being a cost-effective way to reduce Australia's carbon emissions, the Clean Energy Future package drives a large-scale transformation of the Australian economy.

Our plan for a clean energy future is contributing to international action as economies around the world move to low-emissions sources of energy. The Carbon Pricing Mechanism will facilitate a smooth transition by Australian businesses and communities to a low-emissions economy, in the context of increased global efforts to reduce emissions.

We are looking to integrate our emission reduction plans with others overseas where it is in Australia's national interests to do so. From 1 July 2015, the significant step of linking Australia's carbon pricing mechanism with the European Union's Emission Trading System will begin. Australia will continue to work with partners in Asia to build emerging carbon markets in the region (Chapter 8).

By 2025, Australia will have reduced emissions by at least 5 per cent below 2000 levels on the way to a clean energy future in which emissions are 80 per cent below 2000 levels by 2050.

Building on Australia's status as a world leader in the research and deployment of solar energy technologies, our aim is for Australia to become a world leader in the commercialisation and deployment of renewable energy technology and energy efficiency, with at least 20 per cent of Australia's electricity generated by renewable energy sources by 2020. And we are supporting the deployment of new technology through the $10 billion Clean Energy Finance Corporation.

Acting on climate change requires global action, and many nations are adopting policies to reduce their emissions. Many countries in the region are equally concerned about the risks posed by climate change and have already begun to curb their emissions and make substantial investments in renewable energy.

Promoting sound water and soil management practices

The Asian century will increase the importance of managing water resources sustainably. While the link between water availability and agricultural production is well known in Australia, water is also required in all stages of mining production—for exploratory drilling, production and site rehabilitation, as well as in downstream processing. Many manufacturing processes and service industries use water as an essential input.

The level of sustainable extraction for many of Australia's water resources is being approached or exceeded (NWC 2011). The impacts of this are already evident in reduced water quality, salinity and threatened biodiversity. While these problems are primarily environmental, they could have adverse consequences for economic production because of water's role as an industrial input.

Better water management—involving cooperation with the States and Territories to increase environmental water flows, better understanding of water systems and improved water management arrangements, including reliance on water markets—has the potential to make better use of Australia's available water resources.

Through the Water for the Future package, we are supporting improvements to the sustainable management of water resources.

A major component of the package is to provide farmers and communities in the Murray–Darling Basin with more confidence to plan for a future with less water, to put water use on a sustainable footing, to enhance irrigation productivity, and to improve river and wetland health. We will finalise and implement the Murray–Darling Basin Plan to ensure the basin can support productive communities.

Australia's soil is a major national asset, driving our agricultural productivity and ability to be a net exporter of food. The potential for Australian agriculture to increase productivity growth while managing climate change and reducing greenhouse gas emissions will depend heavily on successful management of the soil resource base.

Most of Australia's soils are ancient, low in carbon and nutrients, and poorly buffered. Erosion, soil carbon rundown and soil acidification reduce the land's ability to support production, maintain resilience to climate change and provide ecosystem services, including clean air and water, to the Australian community.

Through the Caring for our Country program, we will invest in projects that encourage land management practices by farmers to improve the condition of Australia's soil resource. This work will be complemented by investments under the Carbon Farming Futures program to improve soil management and for soil research, development and extension.

Preserving Australia's rich biodiversity

Australia's biodiversity is in danger—more than 1,700 species and ecological communities are known to be at risk of extinction.[2]

Threats to Australia's biodiversity are largely the result of a long history of unsustainable use and management of natural resources, habitat loss, degradation and fragmentation, invasive species and changes to the aquatic environment and water flows. More recently, climate change has added to these threats (NRMMC 2010).

We are addressing these challenges. Australia's Biodiversity Conservation Strategy 2010–2030 provides a guiding framework for conserving our nation's biodiversity over the coming decades. The framework recognises the importance of increasing the use

2 For details, see the *Environment Protection and Biodiversity Conservation Act 1999*—'List of threatened fauna'; 'List of threatened flora'; and 'List of threatened ecological communities'.

of markets and other incentives, such as environmental stewardship payments, for managing biodiversity and ecosystem services. We are also seeking to protect biodiversity in the seas by implementing the world's largest marine reserve network.

This strategy is scheduled for review in 2015. So that meeting Asia's and Australia's own growing demands for non-renewable resources does not come at the expense of environmental sustainability, we will seek to ensure these risks are broadly assessed as part of the review.

We also support the ongoing development and use of environmental accounting in Australia.

5.9 Maintaining sound macroeconomic policy

Australia's macroeconomic frameworks and settings have worked well over the past two decades, with Australia having recorded more than 20 consecutive years of economic growth—a record unmatched by any other advanced economy over this period (Chapter 3). Sound macroeconomic frameworks and decisive policy responses have allowed Australia to successfully weather significant economic shocks, including the Global Financial Crisis. The Australian economy has also sustained the longest mining boom in its history, managing to convert high commodity prices into more enduring export capacity. This has been achieved at the same time as contained inflation and low unemployment.

Maintaining our macroeconomic policy frameworks is necessary as Australia's economy becomes more integrated with the fast growing Asian region. While Asia's long-term outlook is positive and the growth paths of emerging economies should follow a rising trend, there will be volatility along the way.

Australia has little direct influence on overseas economic volatility, but our robust domestic macroeconomic policy frameworks moderate the impact of any volatility on Australians.

Our macroeconomic framework comprises three pillars:

- a floating exchange rate that acts as a shock absorber for the economy
- independently operated monetary policy focused on managing the level of demand to keep the economy on a stable growth path consistent with low inflation
- fiscal policy that is focused on the medium term and responsive to the economic cycle, set within the Charter of Budget Honesty.

National objective

8. Australia's macroeconomic and financial frameworks will remain among the world's best through this period of change.

Sound fiscal management will continue to serve us well

At this time of ongoing global economic uncertainty—when concerns around governments' fiscal positions have been a cause of economic distress in many countries around the world—maintaining fiscal sustainability is crucial. Fiscal sustainability is essential to maintaining macroeconomic stability, reducing economic vulnerabilities, and achieving sustained growth in living standards.

Around the world, public finances that are viewed as unsustainable generate uncertainty, as governments are expected to act to secure finances by reducing expenditure or increasing taxes, or face the risk of default. A credible strategy to maintain fiscal sustainability, therefore, provides a positive foundation for long-term decision-making by households and businesses.

We give effect to promoting fiscal sustainability through our commitment to achieving budget surpluses on average over the medium term and to improve our net financial worth over the medium term.

In order to return the budget to surplus, we introduced a clear and credible plan with strict fiscal rules that included (1) allowing the level of tax receipts to recover naturally as the economy improves, while maintaining taxation as a share of GDP below 2007–08 levels on average, and (2) holding real growth in spending to no more than 2 per cent a year, on average, until surpluses are at least 1 per cent of GDP and while the economy is growing at or above trend. Our commitment to fiscal discipline, including the return to surplus in 2012–13, will ensure Australia's balance sheet remains one of the strongest in the developed world and will help maintain confidence in the strength of Australia's public finances—as reflected by Australia's AAA credit rating with a stable outlook from all three major credit agencies.

However, the return to surplus has been made more difficult by weakness in revenues. Tax receipts are now expected to remain well below the unsustainable peaks reached prior to the Global Financial Crisis. Despite these challenges, we are returning the budget to surplus in 2012–13.

Higher government saving over the medium term, consistent with our medium-term strategy, will also ensure we are better placed to deal with fiscal pressures arising from an ageing population.

We have introduced a number of enduring savings measures that will build steadily over coming years, providing ongoing improvements to the budget position and helping make room for emerging priorities, like school funding reform and the National Disability Insurance Scheme. These savings include progressively increasing the Age Pension qualifying age, means testing the private health insurance rebate, reforms to family tax benefit arrangements, dependent spouse tax offset and the Baby Bonus, better targeting the tax concession for living-away-from-home allowances and benefits, and reducing the contributions cap for superannuation and the superannuation concessions for high-income earners.

Proposal for saving through a sovereign wealth fund

With the return to surplus, our first priority is to strengthen our balance sheet by reducing net government debt from already low levels, while maintaining a liquid and efficient Commonwealth Government Securities market.

A number of submissions to the White Paper argued that sustaining the benefits of a high terms of trade, as well as managing its immediate macroeconomic effects, could be achieved by investing some portion of government revenues arising from the high terms of trade in financial assets through a sovereign wealth fund.

Such funds are employed by a number of resource-rich countries, such as Norway and Chile. Their sovereign wealth funds either build up financial assets for the long term or set aside revenues when commodity prices are high so that those revenues can be used when commodity prices are low.

But government revenues in these countries tend to be much more reliant on their resources sector. For example, oil and gas make up around one-third of Norway's total revenue, while in Chile, copper generates about one-fifth per cent of government revenue (Garton & Gruen 2012; IMF 2011). In contrast, Australia's mining sector contributes around 6 per cent of government revenue in 2008–09 (Garton & Gruen 2012).

Ultimately, the effectiveness of any sovereign wealth fund rests on underlying fiscal discipline that ensures national saving rises in line with unusually high revenues. Just as opening a new bank account does not compel an individual to save, the establishment of a sovereign wealth fund on its own does not compel public saving.

At the moment, we consider it unnecessary to establish a sovereign wealth fund.

Over the longer term, what we do with revenues would depend on what the economy needs at the time. Future surpluses could be used in three ways: to accumulate financial assets; to invest in productive non-financial assets, such as well-targeted investments in infrastructure and education; or to cut inefficient taxes. The latter two policies would, through different channels, lift Australia's economic growth and increase the income and wealth of future generations.

Enhancing the efficiency and resilience of Australia's financial system

Australia's financial markets—our banking, insurance and managed funds sectors—are open, stable, efficient and well regulated following decades of reform to deepen them, strengthen their resilience and make them more attractive to foreign investors. This also reflects the quality of the institutions Australia has created to oversee and regulate them, including the Reserve Bank of Australia, the Australian Prudential Regulation Authority and the Australian Securities and Investments Commission.

But the reform task is not complete.

Australia's financial markets will need to continue to evolve to be better able to withstand the sort of volatility experienced during the Global Financial Crisis, which threatened to deprive the Australian banking system of access to offshore wholesale funding with potential flow-on effects for the supply of domestic credit—we acted quickly to support the flow of credit during the Global Financial Crisis. Australian businesses and investors also need to be better able to manage global financial risk.

We are committed to ensuring Australia has access to well-managed and efficient financial markets offering a diversified range of financial products, with the risks and complexity associated with particular products both transparent and appropriately priced. This includes having an efficient and well-regulated funds management industry, with the value of funds under management doubling in size by 2025.

An important part of our commitment is fostering a stable and competitive banking system. To this end, we have implemented the Competitive and Sustainable Banking System reform package and are advancing the financial stability reforms agreed by G20 countries, including implementing the Basel III capital and liquidity standards. These reforms aim to further increase the resilience of the financial system—requiring a higher quality and quantity of capital—and enhance the ability of financial institutions to withstand funding stresses.

We are also working to ensure a more efficient superannuation system, following the Super System Review, to encourage greater retirement savings (SSRP 2010).

Looking further ahead, we will work to remove impediments to the emergence of a deep and liquid corporate bond market. An efficient corporate bond market will allow businesses to borrow directly from the market, reducing their need to rely on intermediated funding sources. This should also produce an attractive investment asset for superannuation funds, a significant domestic source of investment capital. As an initial step, we will be seeking to reduce regulatory complexity and costs associated with issuing corporate bonds to retail investors.

We are also moving to allow Commonwealth Government Securities, such as Treasury Bonds, to be listed on a security exchange. This will allow retail investors to diversify their investment options, and establish a more transparent risk-free rate of return, assisting the appropriate pricing of corporate bonds.

Other regulatory arrangements that drive an over-reliance on a particular source of funding or investment vehicle will also be examined. This will include regulatory burdens or barriers to greater financial market integration across the region.

Promoting open, well-regulated and resilient financial markets in our region will have flow-on benefits for the stability of Australia's own financial system. We will work with regional partners to this end (Chapter 7). Together, these efforts will help ensure sustainable, diversified and competitive financial markets.

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Australia in the Asian Century Implementation Task Force
Department of the Prime Minister and Cabinet
PO Box 6500
Canberra ACT 2600
Email: asiancentury@pmc.gov.au