

Submission by the Academy of Technological Sciences and Engineering to the Joint Standing Committee on Foreign Affairs, Defence and Trade

The Academy welcomes the Joint Standing Committee's Inquiry into *Enterprising Australia – planning, preparing and profiting from trade and investment*. The Academy addresses the terms of reference by means of the following narrative:

Development Agencies such as the IDA of Ireland and the EDB in Singapore, together with the SDA in Scotland and are widely considered to be successful in promoting economic growth and investment in those countries/region. There appears to be a number of reasons behind their success:

- A long-term strategy with a stability of policy and approach over more than a decade. The success of these organizations derives in considerable part from the long-term stability of the measures to encourage economic development and investment and the organizations that deliver them. There is an important lesson for Australia here in that, to the extent that we offer incentives at all, they are subject to frequent significant changes.
- These organizations are semi-autonomous. They are given a mission by government, together with a commitment of funding over an extended period, and are then left to get on with the job. Their governing boards have strong private sector membership and they operate rather more like companies than statutory authorities. As a consequence, they are more flexible than government departments in matters such as staffing. They respond expeditiously to opportunities and their staff are more easily able to relate to their private sector clients. This helps them to be more effective.
- Ireland and Scotland were facing bleak economic futures before the relevant governments introduced measures aimed at improving their positions, including action through their development agencies. The Irish and Scottish circumstances were such as to force political action, but opportunities exist for Australia to act before crisis situation is reached. We should not wait before embracing the development agency approach.
- Singapore recognised that its economy was too reliant on its role as a key point in world shipping. It therefore set out to diversify its economy, first into information technology and more recently into biotechnology. The EDB has been a key player and the results achieved are spectacular. Singapore, with a small population and very little available land, has attracted large multinational information technology companies who have built large high-technology plants. The lesson for Australia is that diversifying our economy away from commodity exports is going to require an approach similar to that of Singapore.
- The actions of these development organizations have created jobs and economic benefits for the countries/region involved. Sometimes this has involved tax holidays for limited periods. However the cost of these tax holidays is minimal because large new high technology plants usually take several years to become profitable and thus become liable for tax. If these plants had been built elsewhere they would not be paying tax in Scotland/Ireland/Singapore anyway, so favourable tax treatment leads to mutual benefit.

Australia has the basis of a development authority in AusIndustry and Invest Australia. Putting these two bodies together in the form of an independent development agency could have merit.

There are significant impediments to foreign investment in Australia. These include:

- A lack of knowledge of Australia on the part of potential investors. Many Americans believe that we are somewhere in Europe. Few Europeans have any knowledge of our economy. Our major source of foreign investment continues to be the United Kingdom, whose citizens are generally better informed about Australia. This investment information gap needs to be closed.
- Australia's tax system does not encourage foreign investors. In some circumstances it penalises foreign investment in ways that our trading partners do not. An example here is the way we tax foreign earnings and foreigners who come here to work. Other countries (both OECD and non-OECD) are less aggressive towards foreign investors in their tax policies. A further example of this problem lies in our tax treatment of employee options and shares. This detracts from what could be best practice - motivating employees by encouraging them to become share owners.
- Our distance from markets continues to be an issue for some exports. This distance problem can be addressed by efficient handling and transport. Some progress has been made in recent years, but there is evidence to suggest that Australia has not yet achieved world's best practice in these areas.
- Australian governments do not offer incentives comparable to those of some of our competitors. The R&D tax concession in Singapore is 200%; Ireland offers tax holidays. Further, when Australian assistance to industry is measured on a net-cost-to-government basis it is very modest by OECD standards, behind even that of the USA.

We must also look further afield for the results of successful development programs. AusAID and Austrade, for example, can have a powerful catalytic effect on Australian trade with and investment in developing countries. We are aware of the ethical opprobrium that attaches to those who are seen to link aid and trade, but some countries – notably Canada, Germany and the United States – manage this link to great effect. The Simons report had a good deal to say about this, highlighting the alleviation of poverty that can result from successful partnerships. In addition, we should point out that developing countries are home to many companies with which Australia could form effective partnerships. Such partnerships, and the cooperation between local staff and agency officers in those countries, can form the basis upon which Australian technology and 'know how' can be converted into profitable trade and investment.

The Goldsworthy report has identified issues in relation to the training of information technology professionals. The Academy also believes that there is a need to attract more students to study science and engineering. There is a need to change the negative attitude of some teachers towards business and industry. Australia needs students who feel inspired to start their own companies. The Terms of reference of the inquiry indicate that Government, if it acts on the advice it is likely to receive in

response to the call for submissions, can provide the climate in which such entrepreneurship may flourish.

ATSE
8 March 2001