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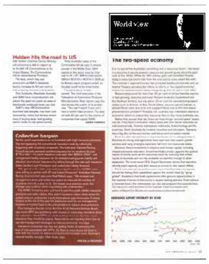

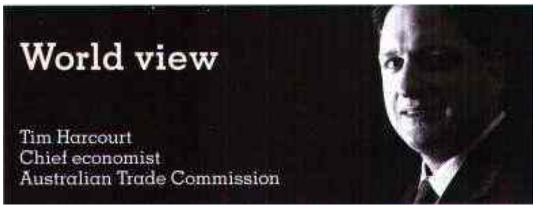

The two-speed economy

It is no secret that Australia is benefiting from a resources boom – the latest in a long line of export-oriented, resource-led growth spurts since the gold rush of the 1850s. While the 19th-century gold rush benefited Victoria, today's resources boom hails from the west and to some extent the north. The contrast in regional fortunes has prompted leading econocrats such as federal Treasury secretary Ken Henry to refer to a "two-speed economy", where the resource-boom states charge along with the rest in their wake.

Resources account for more than 80 per cent of all merchandise exports in fast-growing, resource-endowed Western Australia, Queensland and the Northern Territory, but only about 20 per cent for manufacturing-based states such as Victoria. In New South Wales, resource export intensity is almost 60 per cent, due to its rich supply of black coal. Is this two-speed phenomenon a problem? Probably not. Australia has undertaken extensive economic reform to ensure that resources flow to their most profitable use.

Rather than accept their fate, there are three things "second-speed" states can do. First, there's innovation. Many states with few natural resources do well economically. Victoria emphasises multimedia, biotechnology and life sciences, South Australia the creative industries and education. Tasmania has a big slice of the eco-tourism and leisure and recreation market.

Even if a state doesn't have a resources boom, it can still gain from it. Services to mining and agriculture have been two main export growth sectors and many emerging exporters hail from non-resources states.

Second, there's investment in physical and human capital, including infrastructure and education. Investment helps protect against the cyclical nature of events such as the resources boom by ensuring that critical inputs to business are not only available but plentiful enough to allow expansion. The most recent DHL Export Barometer shows that exporters identify plant capacity and skills issues as crucial to their export efforts.

Third, international competitiveness means that Australian companies should be testing their capabilities against the world's best by "going global". Australia's free-trade agreements offer genuine opportunities in the markets of some of the country's largest trading partners. Even without a minerals boom, the other states can take advantage of the opportunities.

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