

Launch of the Competing from Australia Project Report

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I'm a Sydney man but I was born in Melbourne and lived here for the first years of my life sufficiently long, Ben I might point out, to have experienced a frison of irritation to hear a government spokesperson expressing partiality for football teams that I don't happen to support. It's good to be home I guess.

Ladies and gentlemen, there is myth that Australia is just a lucky country but our prosperity owes more to our circumstances and to our good fortune than it does to our talents and abilities. It's a myth that persists despite the fact that Australians are now arguably the hardest working people in the developed world who work longer hours even than the Japanese. It's a myth that has persisted despite the high productivity growth that we experienced in this country through the 1990's until we got such high employment and supply constraints.

It may be an idea that was very relevant for the 1960's and the 1970's when our industry was highly cushioned by protectionist policies. But I believe that it's an idea that has outgrown its usefulness that's been superseded, shall we say, by events. Now you would all recognise that something extraordinary has happened in the Australian economy over the last quarter century. In the final two decades of the 20th century Australia was one of only three developed countries to increase its share of global GDP. That expansion incidentally preceded the current resources boom which is what most people like to attribute our growth to. We are perhaps in the middle of, perhaps at the end of, who knows, of the longest period of economic expansion since federation. Per capita GDP growth in Australia has grown more strongly over this period relative to the rest of the world than at any other time in the previous century; but you all know this.

What is much less widely appreciated but, which I think is equally exciting, is that accompanying this expansion in our economy Australia has experienced also an expansion in its economy of ideas. In the past 10 years we have experienced 10% annual growth in our total R&D investments. Since the early 1990's business investments in research and development have grown at twice the rate for the OECD as a whole. Our universities now invest in research as a proportion of the total Australian economy at a rate that is significantly higher than Irish universities at a rate that is higher than American universities or British universities or French universities or German universities or Belgium universities. In fact our universities now gain a higher proportion of their research funding from business than American universities do. We complain in this country about a brain drain.

Current evidence suggests that we receive two skilled people in for every one that we lose and indeed one study has suggested that of those who go 70% return within two years.

Something very interesting in my view is happening in Australia at the moment but it is not something that is widely acknowledged. It's something I think that we're blind to. And there are a number of reasons that one could suggest for this. One is our passion of perpetuation of the lucky country myth. As I alluded to earlier, we attribute also our current economic good fortune to what's happening in China. Never mind our own abilities in responding to the opportunities that China affords us.

We also I think indulge particularly in our academic communities and in some parts of our innovation communities, we indulge a culture of complaint, a pessimism and a negativity which I think is not only misguided but also detrimental in the sense that it can potentially be self fulfilling. Of course, if you have a very traditional view of what it means to be innovative then maybe the pessimism is well grounded.

In the late 1970's of the total business investments in this country 20%, a fifth of all business investments in research and development were in television, radio and communications equipment. In Finland at the same period only 10% of their business research orientation had that focus. Today our business investment in research in those areas is negligible. It amounts to just a few percent of businesses total contribution to research in this country; in Finland its 50% of their business contribution to research. If you associate innovation with high tech manufacturing of mass consumer goods, maybe there are grounds for pessimism. If you associate innovation with having a Nokia maybe you're destined to be disappointed. But what I would argue and what I argue in my paper is that if you don't look at our weaknesses but you seek out our strengths you get a much different picture. And interestingly since the 1970's the area where Australia has really expanded its investments in business R&D is in services. Nearly 50% of business research and development in Australia is now in services. This is a higher rate than in any other country in the world and it vastly exceeds the waiting in most other developed nations.

I think that the waiting to services has been accompanied also by this shift that we've experienced in our society, in our society in particular to invest in information and communications technology. Not in the development of new hardware but in the use and adoption of those technologies and as the OECD has estimated that between 1995 and 2003 Australia was in the top three countries in the OECD for the GDP growth benefits of its investment in information and communications technology.

What is it? What are the hallmarks of our investment in services and in our use of information technology that are a bit different and that we might have some reason to be proud of perhaps? What I would suggest, and I'm not alone a lot of innovation experts say the same thing, is that what Australians have traditionally been particularly good at is what's termed as systems integration. Systems integration is a phrase that's often used actually in information technology where the systems integrators are not the people developing the technologies and having the ideas they're the people that are taking other people's technologies and combining them in interesting ways. It's also a term that's used widely in the defence realm where companies may combine hardware with software in interesting ways or combine physical hardware with electronics hardware in interesting ways. I think it is what Australians are good at and I think there's actually considerable evidence not just from the present but also if you go back to the 19th century which was another time where Australians had relatively unfettered markets where there's a lot of evidence of system integration behaviour.

But I'd like to mention just one area, because I think it's an area that's particularly interesting for Victoria. I know that in Victoria you have a strong biotech cluster. A cluster particularly of public sector research bodies of medical research institutes and of universities capabilities. It may be surprising to learn however that in Australia as a whole there has been a decline in the relative waiting by business of investment in R&D in the pharmaceutical sector over the last 30 years. In the late 1970's the investments in pharmaceutical industry R&D amounted to about 5% of business R&D in Australia; they currently amount to about 4% and Australia has been one of the few developed countries to show a decline by this metric. Other countries have shown dramatic increases, I mean the UK is one example where in the 1970's about 7% or 8% of business investments in R&D were in the pharmaceutical sector and now 25% are.

What's happening in Australia, I think, is, I mean there are issues relating to the involvement of multi-national corporations, but particularly what's happening is that our biotech companies, our small nascent biotech sector is not actually doing R&D in a way that should be thought of as pharmaceuticals R&D or manufacturing R&D, they're doing systems integration R&D and what they do is they often take IP, and I worked for a lot of these companies, they take IP often from a public sector lab; some will acquire IP from overseas and their business model, the success or failure of their business is entirely dependent upon their ability to integrate that technology with other technologies with business systems, to move technology through regulatory processes often contracting out aspects of the journey and as a consequence we actually, most biotech companies R&D is categories as part of the service industry in this country which is not true of all countries.

So I think something very interesting is happening in Australia. I think if we believe the old model we probably will make policy mistakes. If we can see that the opening up of markets has had not only economic consequences but has provided us with an experiment in where Australia's comparative advantage and innovation may lie I think there are lessons we can learn for our education policies, for the kinds of industry policies we adopt but fundamentally I think that there's a much deeper lesson that we should all appreciate. 20 or 30 or 40 years ago soon after Geoffrey Blainey wrote the Tyranny of Distance, Donald Hall wrote the Lucky Country and to my mind these two books represent two sides of a way of looking about Australia. They both argued that we are the product of our circumstances. The Tyranny of Distance took a pretty objective line. It didn't actually many valued judgements it just said these are our circumstances, this is the way we've turned out, this is how they're connected. The Lucky Country however did make valued judgements. It suggested that our circumstances had made us soft, had made us incompetent and had given us very little reason to think that we should take any credit for our success in business or economics and I think that the evidence now is that perhaps that second book and the ethos of the second book can be discarded and we can focus on the issues highlighted in this report which are that we are the product of our circumstances and lets just get on with it. Thank you

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