

**Report from GBN Australia for  
the Australian Business Foundation**

# **Alternative Futures — Scenarios for Business in Australia to the year 2015**

**summary**

REPORT FROM GBN AUSTRALIA FOR  
THE AUSTRALIAN BUSINESS FOUNDATION

SEPTEMBER 1999



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140 Arthur Street  
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Alternative Futures — Scenarios for Business in Australia to the year 2015

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# Preface

The project on Alternative Scenarios for the Future of Business in Australia is the brainchild of the Australian Business Foundation, the nation's newest independent private sector think tank.

The Australian Business Foundation exists to strengthen Australian enterprise through research and policy innovation. It does this by conducting ground-breaking research, which it uses to foster informed and well-argued debates and imaginative policy solutions and initiatives.

This scenario building project for the future of business in Australia to 2015 is the latest example of the Australian Business Foundation's fresh approach to research, using the specialist expertise on futures and scenarios of GBN Australia.

The Australian Business Foundation has chosen the tool of scenario planning to help make sense of how the future could pan out for businesses, and to assist all those involved to anticipate and adapt to change, whether it is an unpredictable external shock or an as yet unimagined new opportunity.

The critical questions the Australian Business Foundation wanted this project to address were:

- what are the alternative, plausible scenarios for the future of business in Australia? and
- what are the most robust strategies, based on these scenarios, that maximise our ability to generate wealth and jobs, to integrate into global markets and to contribute to a rising standard of living for the Australian community as a whole?

The alternative plausible pictures of the future for business to 2015 documented here have been developed through a process which has included:

- sampling opinions and current literature on the likely drivers of change and critical uncertainties for business in Australia;
- desk research, literature reviews and media monitoring;
- interviews with experts and other 'remarkable people' for their insights on the future;
- analysis and commentary from a range of business, social and educational specialists, including GBN's international colleagues;

- three scenario-building workshops, involving over 40 individuals from diverse walks of life and areas of interest;
- a series of interviews and focus groups around Australia to 'test run' and verify the emerging scenarios, including groups of business people, school children and tomorrow's political leaders; and
- the creation of a series of illustrative vignettes by GBN Australia member Richard Neville, which appear as a preamble to each scenario.

Fashioning these alternative scenarios is just the first step. The intention is to provoke reactions and thoughtful commentary from the widest possible range of audiences throughout Australia.

People are asked to reflect on three key questions:

1. How robust or at risk is Australia, given these scenarios?
2. What are the critical responses Australia needs to make?
3. What do you and your sector/business/organisation/community need to do?

The Australian Business Foundation, in initiating this alternative business scenarios project, sought to achieve the following:

- add more substance to our knowledge about possible futures for Australian business and so enhance our ability to create a more prosperous Australia with benefits for all;
- dramatically expand the debate and the mindsets about the best economic and industry policy settings needed for Australia to compete globally;
- provide business with more knowledge to underpin their risk management and strategic planning decisions and their assessments of opportunities for new markets, technological advances and further market penetration; and
- contribute a thoughtful and cogent business perspective to dialogues in the media and the wider community about the kind of society we want to create as we approach a new century and a new millennium.

Any questions or comments on the scenarios and the project in general may be directed to:

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# Acknowledgments

The nine-month process of building the Australian Business Foundation Scenarios has involved wonderful contributions from many people, including interviewees, participants in workshops, focus groups and stakeholder groups from all walks of corporate, government and community life in Australia and we would like to acknowledge all of them.

This has been a team effort in defining the scope of the project, stimulating divergence on the major issues and facilitating their convergence in the scenarios themselves.

I would like to specifically thank my team for their untiring enthusiasm and hard work — and in particular, the work they have done in writing the scenarios from such a diverse range of inputs.

In particular, authorship of the scenarios, scenario summaries and scenario stories is acknowledged as follows:

Scenario writing and research

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*Oliver Freeman, Sydney, September 1999*



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# Introduction

Looking into the future, the one thing we can predict is that there will be change — great change, in all areas of our work and social lives; in the way we organise nationally, globally, socially and politically; in the technologies that have and will continue to fundamentally alter the way we do things and the things we produce; in the bases of competition in industry and commerce. To what extent can we foresee these changes? And what, if anything, can we do, now and in the coming years, to build the kind of future that we want?

## Why scenario planning?

Scenario planning is a tool used by many businesses to develop creative responses to existing and future challenges. This Alternative Business Scenarios project is about looking beyond the bottom line, beyond the end of the next financial year, beyond the annual report to shareholders. It is about Australians, and especially those involved in business in Australia, engaging intellectually with possibilities for the future, and coming up with responses that can shape that future.

This project was not undertaken with the aim of removing doubt, nor of predicting the future, nor even of wanting to 'get it right'. Rather, it was designed to help those involved with business in Australia — governments, investors, consumers, the young, educationalists, families and employees — to think more deeply about the role of business in Australia's future and to create sustainable strategies for business and social success. These scenarios on alternatives for business in Australia focus specifically on building views of the future which address the question: *what can we do to maximise our ability to generate wealth and jobs, to integrate into global markets, and to contribute to a rising standard of living for the Australian community as a whole?*

## The process

Developing the scenarios, presented here in summary, involved research, consultation, analysis and commentary from a wide range of business, social and educational specialists. The scenarios were many months in the making and represent the distillation of material gathered through media monitoring, literature searches, research, opinion sampling, interviews with experts and focus groups.

To answer the question posed above, a key step was identifying the 'drivers of change', both for Australia and globally. Once these drivers had been identified, we could then move on to look at how these drivers might affect Australia into

the future (in this case, 15 years into the future). This brought us to an examination of the four scenarios presented here, and hopefully the development of new ideas and approaches which can enable Australia as a community to achieve not only the most productive future for business in Australia, but the one that delivers the greatest benefits for all Australians.

### Drivers for change

In undertaking this project, we considered many trends, forces for change and critical uncertainties: the 'drivers for change'. These are both factors which are operating now and those which are foreseeable over the next 15 years.

#### ***Australia as a taker rather than shaper***

In global terms, Australia is a fringe dweller, and there are many drivers for change about which Australia is powerless. We do not have the power, for example, to choose whether the internet will be globally regulated, or if there will be a global agreement on biotechnology, or even to direct the pricing of commodities of which we are a major world producer. In many sectors we do not have any companies with the size, reach and capital required to make the enormous investments necessary to bring many of the new technologies to market.

These factors introduce many complex uncertainties to the analysis, mainly in the geopolitical arena, but also in the areas of organisation and location of global enterprise, positioning of economic power in the newly rearranged value chains and access to commercial advantages of new technologies.

#### ***Globalisation and economic reform***

As the scenarios suggest, critical uncertainties can be anticipated for Australia at home and abroad. Globalisation, particularly the free movement of goods, services, capital and skills, has been a world trend in the 1990s, but its path is often seen as erratic and inconsistent. Its main advocate, the US, is often perceived by other nations as self-serving in its approach and many countries suspect that all the benefits of globalisation will accrue to the stronger economies of the US, Japan and Europe.

Globalisation and open markets are seen to be delivering benefits only to some nations and to some people. In Australia, privatisation, competition policy and economic reform, together with technology impacts on jobs and competitiveness, have accelerated the rate of change, which has delivered both beneficiaries and casualties. When workshopping the drivers for change and developing these scenarios, many participants felt uncertain whether an economic approach that delivers benefits so unevenly and which has caused so much disaffection would persist. We were also uncertain how relations between the US and China would develop and whether that great experiment, the European Union and its single currency, would succeed.

#### ***Environment and sustainability***

While we were certain of the pressures on the environment from industry and burgeoning populations, we were uncertain how these pressures would play

out: would there be an environmental crisis, or a series of crises, which would force stronger environmental regulation? Would pressure from consumer and community interests create incentives for business to put in place sound environmental practices and green products?

### ***Technology and the interconnected world***

It was a given that new technologies in all areas would be a key driver for change over the next 15 years. Microelectronics, nanotechnology, genetics, new materials, biotechnology, and recombination of old technologies in the areas of multimedia, information technology and telecommunications will continue to shape our lives, and their impact on business will be revolutionary. The impact of new information technology will transform not only the way businesses operate, but the very bases of industry and commerce.

The downside to this driver for change is the implications of continuing and more extreme divisions between the information rich and the information poor.

### ***Knowledge economy and innovation***

Although we saw the knowledge economy and the increasing value of intellectual property (IP) and innovation as another key driver, we were uncertain how government regulation and legal protection of IP would pan out. We recognised the importance of continuous innovation, both for businesses and individuals, and the impact of speedy, worldwide dissemination of information.

### ***Australian economic and social policies***

Would Australia continue down the path of economic reform, tackling the taxation system, industrial relations and continue its privatisation programs? Would we take deliberate and strategic action to build Australia's local industry capability, our global brands and capacity for innovation? Would governments recognise the importance of education with increased support and funding? Would we maintain our social safety net? What would our immigration policies be? These questions were particularly important for two scenarios (*First Global Nation* and *Brave Old World*), as many of the external drivers for change were seen to be very similar; what differed was the reactions of government and the Australian people themselves to developments on the global stage.

### The scenarios — Australia in 2015

These drivers gave us a lot to contemplate as we entered the 21st century and the new millennium! After considering all these trends, forces and uncertainties, we came up with four possible worlds.

***First Global Nation*** describes a successful Australia which adapts with flair and flexibility to the globalisation of world business and the challenges of an online knowledge economy.

***Sound the Retreat*** sees a world in which geopolitical instability and cultural and social backlash override the benefits of economic globalisation, forcing Australia

to revalue its bilateral business relationships as multilateral ones became impossible.

**Brave Old World** is a picture of Australia where our comfortable lifestyles, economic performance, adequate social security systems and laconic approach to the future conceal the need for strategic and concerted effort to make the transition to the global knowledge economy until it is too late.

**Green is Gold** looks at how global agreements on environmental management imperatives play out in Australia for business and the community at large.

Each worldview, or scenario, is independent from the others, although they all share common ground. The common ground included trends like the growth of information and telecommunications technology, globalisation of financial markets, and the advent of new technologies, as described above. We understood that a precondition for our future was an accelerating pace of change, and change of fundamental significance to business and society. We recognised the power of the complex interactions between people, technologies and the consumer drivers of technology applications, and the ramifications of these interactions for how businesses compete for the customer. We understood the importance of the opening Chinese economy, with its formidable ability to manufacture and supply large volumes of products at low cost and high speed into world markets, and its increasing ability to utilise high technology and achieve high quality. And we factored in demographic changes at home and abroad.

And so the background to each of our scenarios panned out like this ...

**First Global Nation**<sup>1</sup> was defined on the basis of a belief that, although quite vulnerable and under threat, the impact of globalisation on business, capital and human flows around the world would continue. We used the word 'open' in our description of the scenario because we anticipated that national borders would be kept open economically and politically (which supposes a peaceful world). We anticipated the emergence of a world ordered politically around the central poles of Europe, all of the Americas and Asia, including an economically and politically open China. We believed that Australia could institute key policies and long term, systemic strategies at the national and business level which would provide the concerted focused effort necessary to take Australia successfully into the new economy. We anticipated more than mere success — we anticipated that by 2015 Australia would have an international reputation as a First Global Nation, showing leadership in international affairs and global governance.

**Sound the Retreat** was based on a worldwide decay of globalisation. In this scenario we did not believe that globalisation could be sustained. We thought nations would come under pressure to pull back from globalisation for a number of reasons: (1) cultural reasons, when the US media became pervasive and e-commerce brought a little bit of America into every home; (2) social reasons, when jobs and enterprises were lost; (3) economic reasons, when it became clear

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1 This title was first derived from a workshop by GBN Australia and influenced by Charles Hampden-Turner.

that open markets gave the US and other strong trading nations access to foreign markets but did not provide those foreign nations with access to the US market; and (4) environmental reasons, when the environmental costs of competitive paradigms of production became overwhelmingly evident, especially in the populous new markets of China. Australia was the victim of this retreat, but it was also thrown back on its own resources and, through a combination of luck, confidence and foresight, some enterprises and individuals were able to create new businesses and productive relationships for Australia, both domestically and within an international arena.

**Brave Old World** accepted that globalisation and the wired world would continue. What it doubted was whether Australia would recognise the urgent need to gather resources and stage a focused and strategic effort to ensure it had what it takes to participate in the global knowledge economy. We did not doubt that Australia had successful and profitable enterprises, or the necessary intelligence and ambition, and we recognised Australia's achievements in opening up its economy with resultant strong growth, even compared with the world's most productive economies, by the end of the century. What was doubted was whether Australia would have the resolve, drive and sense of urgency, as well as a sufficient suite of both public policy and business management building blocks, to overcome barriers and forge the opportunities to take its place in the new economy with its emerging industries and technologies.

**Green is Gold** recognised that the costs of business — the products, services and factors of production such as transport, energy and water — and the way in which business is conducted are dependent upon the level and type of environmental regulation and the strength of consumer concerns for the environment. We anticipated a global response to environmental concerns and described a future in which Australian governments faced the imperative of dealing responsibly with world dictates on environmental regulation, while Australian business faced the imperative of achieving sustainable production and taking account of cradle-to-grave product life cycles. We suggested that the end result for Australian business would be a profitable bottom line for those companies which recognised early that environmental management was a central, not peripheral, issue for the competitiveness and growth of their enterprises.

It was hard for us to anticipate the wild cards in the deck of forces that make for change. A decade and a half is a short time in human evolution. Though it spans five or six federal elections, three or four US presidencies, birth-infancy-childhood and a chunk of adolescence for every child born in the year of the Olympics, and 15 discrete minutes of fame for 525,600 Australians, it is just a blink for the all-seeing eye of history.

By 2015, of course, the world will have evolved rather differently from any one of the 1999 scenarios. There is no such thing as an infallible forecast. But understanding each of the worlds created here will help us come to terms with the complexities of living and working in the present. ●



# First Global Nation

This scenario tells of a vital, young nation that reinvents itself to capitalise on the massive transformations occurring in the business world, in consumer needs, and in society at large. These changes are occurring because of the rise of networking and online technologies and the increasing pace and penetration of the free movement of ideas, knowledge, people, goods, services and capital around the world.

Australia embraces its internal diversity and its freedom from the grinding forces of cultural and ethnic longevity and the responsibilities of global leadership. Despite being small and a long way from anywhere else, Australia is able to catch the tide of globalisation.

By a deft mix of economic reform, engagement in international affairs and aggressive action to boost home-grown innovation and industry capability, Australia leverages a place for itself in the global market and in the affairs of nations.

## Australia as a Global Nation

The Year: 2015

The Place: Melbourne, Australia.

The achievement: An open society, high tech, high skilled, inter-connected, transparent, adaptable, diverse, confident, environmentally astute, entrepreneurial and knowledge driven.

The story: How a strong national brand transformed itself into a global icon, while re-inventing the notion of travel, adventure and lifestyle services.

*Fortune Magazine, Asia edition 15 September 2015*

### Oz Wiz Planet Family Heads For Mars

Lively Planet was born on a suburban kitchen table in the early seventies with the publication of a thin, smudgy guide to the hash dens of Asia. Snapped up by the first wave of backpackers, this edition was quickly followed by a series of localised guides with a broader outlook.

By the 90s, The Lively Planet had become a household name. Its 79 titles covered much of the world, from Manhattan to Marrakesh, from Katoomba to Kurdistan. Its core market had expanded from backpackers and nostalgic baby boomers to embrace armchair explorers and a global, upwardly mobile middle class in search of cool adventures to share with their kids.

And then came the web.

Overnight, a million customers became a community. A community rich in information and experience, with an affection for the brand and its evolving aspirations. From far flung destinations, its members gleefully posted updates to the Lively Planet website, further enhancing the reach and credibility of the guides.

The firm stayed based in Melbourne in the 21st century, as major shifts occurred in its operations and areas of focus.

Warehouses shrank, as the bulk of its output was delivered online. Its worldwide community, the lively planetees, expanded — not only physically, but in their aspirations. The readers became restless. They wanted more.

Sensing the de facto partnership, readers suddenly sought more from travel guides than hotel tips, restaurant reviews and museum opening times. They wanted Experience. They wanted Adventure. They wanted to feel as if they were going to places no one had ever gone before.

At first, these demands were easily handled. China shook off the last vestiges of paranoia and opened its borders, the hordes came running. Instant language translators eased the penetration of the hinterland, and meals of live monkey brains enlivened even the most jaded palates.

Besides, China seemed the perfect antidote to the implacable spread of McWorld. It had weird herbs and wild discos. The boom lasted until about 2010, when the one millionth outlet of McDonald's in China planted its golden arches in Tiananmen Square. Suddenly everywhere in the world seemed like everywhere else.

The Lively Planet declared a state of emergency. Its leading lights were flown to Melbourne for a bout of intensive scenario building and future dreamings. Where to for adventure travel?

After months of tears, rage and laughter, the hot shots emerged with three options: inner space, cyber-space and outer space.

They took all three.

Lively Planet started crafting journeys to enhance its community's inner experience. In a world of convergence and platitudes, it threw in the powerful ingredients of education, entertainment, multimedia, sports, extreme challenge and a toolkit for self-transformation. The first of these inner journeys was trialed in the Australian wilderness. Led by high quality growth guides, with a slew of backup trainers, the 'soul journeys' were an instant hit.

On that shimmering dawn when Bill Gates was caught by a paparazzo (disguised as an Aboriginal shaman) on top of Uluru in a yoga stance weeping with joy, Lively Planet's stock tripled on Wall Street.

The world's major corporations queued up to send its senior managers outback. They re-emerged as a mix of Crocodile Dundee and the Dalai Lama, with a flair for capitalism.

This time, Australian business did not ignore what it had grown in its own backyard. In a turbulent, high tech, globalised Australia, with a rapid turnover of skilled workers in short supply, there was an urgent need to re-invent the workplace. Lively Planet's soul journeys turned out to deliver a practical punch. They nourished the psychological needs of local employees, helping them, finally, to overcome the cultural cringe. Most of all, by delivering an expanded sense of self, they unleashed the wellsprings of creativity.

Suddenly, Lively Planet had provided a fruitful, magical interface between lifestyle, mindstyle and workstyle.

By taking into the office its global community's sense of adventure and its zest for making new discoveries — the very impetus of the original business — Lively Planet sparked a rush of creativity and innovation to propel Australian business into the future. Even our venture capitalists started taking risks.

All kinds of new businesses were born. Lively Planet was invited to form an alliance with the ailing but still powerful Microsoft to convert its soul journeys into virtual journeys. These were bundled with Microsoft Office 2012, and were credited with further shifting the role of corporations into areas of social responsibility and sustainability.

Lively Planet became a major world provider of a unique range of lifestyle services.

In a scheme similar to frequent flyer programs, the Lively Planetees could ascend various gradations, experiences and initiations, each one embedding them further in the Lively Planet Family of Global Adventurers.

By 2015, the firm's ability to craft lifestyle packages, combined with its techno wizardry and marketing savvy, shot it to dominance in the field of global human resources. Its virtual journeys were standard issue for politicians and CEOs in the public and private sector, while its bread and butter guide books had settled in to become the basic geography texts of the world's educational institutes.

Here was a company which had made its name from charting a geography of the planet way back in the old days and had now evolved into charting a geography of the person — a move from world maps to lifemaps, from the physical to the mental and spiritual.

At the close of 2015, Lively Planet accepted an offer from NASA to send its Virtual Reality production team to Mars. On this momentous occasion, the first step for humankind on a molten Martian landscape was shared and felt by millions of Lively Planetees back on Earth, who didn't even have to leave their living rooms. ●

## The way we were

Although the pioneers of the global economy like Bill Gates, George Soros and Jeff Bezos had been around for not much more than a decade as the century came to a close, their impact was so pervasive that we all knew that we were experiencing a great revolution.

We believed that trends to a globalised economy and globalised media would continue without significant setback; that the trend to an online interconnected electronic world, including a world of electronic commerce, would continue; and that the emerging knowledge industries would become the strategic industries in a global economy.

Thus Australia knew that if it was to succeed (where success was defined as the success of a nation rather than the success of mere elements within) it would have to be more than lucky or clever.

Geopolitics had huge implications for Australia's future and was influenced by great uncertainties. Australia was a taker not a maker of global trends, decisions and the emerging new world order, and was vulnerable to the fallout of decisions made on the international stage, in the interests of others, particularly in our region. The US, the world's only superpower for the last decade of the 20th century (and for the next millennium one would suppose, for who else could afford to take such a role?) was leading the charge in the creation of a world in its own image: democratic, open, capitalist and individualistic. However there was a paradox in the US being the world but the world not being the US. The US came under increasing pressure from international bodies to take a less US-centric, 'cultural coloniser' approach to its role in the world and its position in world trade.

China viewed the US as an arrogant hegemonist that worked its will in a pliant world.<sup>1</sup> Many commentators had noted that the China-US relationship would become the most important one in the world (although curiously most US-based analysts were still obsessed with the US relationship with Japan).

During the 1990s there was a crisis of global overproduction in the real economy, reflecting state-driven overinvestment by Asian countries seeking to replicate the Japanese development model. The Asian crisis of 1997 caused many Asian companies to realise there was excess capacity and to become more focused on efficient capital allocation.

The sheer size of China as a low cost and increasingly high quality producer of manufactured goods maintained an overhang in supply, creating considerable downward pressure on prices and commoditisation of goods at increasingly fast rates.

This competitive pressure, combined with a new aggressive consumerism, continued to drive product and process innovation, growth, the importance of global brands and an ongoing search for new business opportunities at an intense and highly competitive pace. In the new on-line global economy it was like an Olympic Games every day, elite companies from around the world competing for markets, capital and profits most often at the expense of social and environmental amenity.

At the turn of the century, there had been no global conflict for over half a century. And yet, in the decade

<sup>1</sup> Charles Krauthammer, 'The real China scandal', *Australian Financial Review*, June 2 1999, p 18.

after the collapse of the Iron Curtain, a visible unease pervaded the world, which was in dismay at the re-emergence of old and brutal conflicts in the Balkans; the corruption being exposed in Russia; the ethnic cleansing taking place in central Africa; human rights violations in Indonesia and the spectre of epidemics and pandemics of AIDS, hepatitis, cancer, suicides and poverty and old age.

Yes, Australia was optimistic — but would the centre hold or would things fall apart?

### Drivers of change

The seven drivers of change that created the brave new world of 21st century Australia were critically uncertain. It was hard to predict how they would behave both individually and in their systemic impact on business interests and social outcomes.

#### **1. Ubiquity and transparency**

Business opportunities are visible to all businesses around the world at the same time, stripping away bases for comparative advantage traditionally built around privileged access to information, markets, designs and ideas. Competitors quickly compete away product uniqueness, driving rapid and aggressive competition for new ideas, stronger brands, more secure customer relationships, and unique and defensible technologies. Global capital flows require transparency to reduce the risks of exposure to volatile short term finance flows but nevertheless banks, multinational companies and countries suffer significant setbacks without hindering the march of globalisation.

#### **2. Networked connectedness**

The networked global economy operates across national borders and promotes the free flow of goods, capital, people and information. The physical has become less and less of a consideration. Some giants in new industries are everywhere and nowhere — they have no physical head office, or they sell goods online with no warehouses or trucks for distribution. No longer is business competitiveness based on the physical elements of the business; now the dematerialised flows are knowledge driven. The structures of these giant firms look more like huge webs than hierarchies. Skills in global supply chain management, global organisation, global brands, information and communication platforms and knowledge are key challenges in these organisations. Screen based information and communication technology is all-pervasive. A blurring of the definitions of media, information, entertainment, education, shopping and communication sees old product and service offerings and infrastructure disappear along with the companies that delivered them.

#### **3. Social cohesiveness**

The success of an elite few in the knowledge economy comes at a price. Declining

levels of social cohesion and disruptive changes in social values are recognised by governments and business as a downside to the policies of free trade and open markets and the ongoing processes of privatisation, outsourcing and competitiveness.

The backlash against open and deregulated markets is never felt at the polls, and governments and business never find an alternative more viable than socio-economic liberalisation policies. The 'Third Way', much touted in the late 1990s, offers no structural solution. Small, incremental and limited changes are the order of the day, not wholesale social reforms.

As a result, economic rationalism has been shored up by politicians using a patchy mixture of tax increases, welfare reform and increased spending on education, plus a number of programs aimed at supporting local enterprise development and structural adjustment. It is widely believed that a new 'social engineering' will be one of the major knowledge industries of the future.

#### **4. *New technologies***

The convergences of the last two decades of the 20th century, driven by microprocessors and lasers, were dramatic. But now innovation and convergence accelerates in a new world of interactivity flowing from the smart technology built around sensors.<sup>2</sup> Smart technology takes many forms: sensors, new materials, biomaterials and chemistry, all built into interconnecting systems of stimulus response reflexes in any number of applications. Equally impressive is the development of biotechnology, which is the dominant new technology driver in every scenario for this period. Biotech has dramatic consequences for agriculture and food technology, waste disposal, reproduction and biological design, transforming humanity's ethics and business and even its very nature. Making a late run, nanotechnology shows its miniature head at the end of the scenario period, with prototype commercial applications and microrobotics reaching the diagnostic medicine market.

#### **5. *Consumer power and disintermediation***

As a result of the rise of the networked society, consumer power is a major new force in business. It defines the products and services available, and where and how they are delivered. Companies outsource peripheral and non-core activities but retain as critical the customer interface: brand, marketing, information and customer service are the key to winning business. Bad consumer news unstitches the market positions of companies in the twinkling of the 'send' key on a list-serve. The role of brokers and agents, particularly in financial services and global retailing, all but disappears. Young people abandon the savings fixation of their 20th century parents and love shopping, travelling and living for the now.

#### **6. *Entrepreneur-driven change***

Information and communication technologies and the success of new net-based business stimulate entrepreneurial behaviour and an aggressive approach to finding and exploiting new business opportunities. This has led to challenges to traditional industry structures, challenges to the competitiveness of many large companies and rapid transformation of most service sectors. The rise of the entrepreneur stimulates new archetypal actors in the global world of business:

- the new infrastructure masters like Microsoft, Nokia and America Online (AOL);

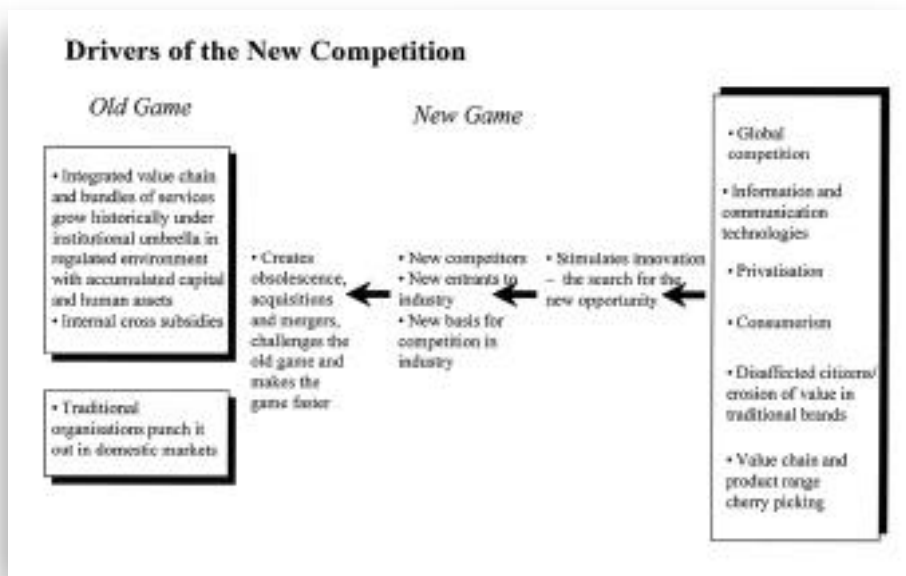
2 Referred to by Paul Saffo at a GBN meeting in May 1999 as 'chips with eyes and radar'.

- the new territorial masters, making cities, regions or countries important nodes in the global web; and
- the global prime movers, who are organising a global web of co-production to satisfy global demand.

In this New World governments lose control ... Local excellence is based on globalisation with no territorial base ... The old game is finished and so governments ask one question: how do we become a good home for value creation?<sup>3</sup>

### 7. World peace and an integrating Asia

The world is a tri-polar political balance of the Americas, Europe and all-of-Asia (including Australia). As a result of new technology and the tacit consensus of major powers to implement the spirit of the Kyoto Treaty, environmental problems are manageable and there are no environmental crises in the powerful nations which impact on the power balance. While there are tensions in Asia — between North and South Korea, between India and Pakistan, between India and China, within Indonesia and between fast growing Taiwan and structurally impeded China — and issues relating to the US military presence in the region, peace and stability are maintained at levels sufficient to prevent any major disruption to world trade or massive levels of refugees. The US experiences a long economic boom<sup>4</sup> and the internet bubble does not burst; rather, it slowly deflates with no sudden or disastrous implications for global markets.



3 Richard Norman, as reported by Kees van der Heijden, GBN, Business Concept Innovation Meeting, Zurich 6 July, 1998.  
 4 Peter Schwartz, 'The Long Boom: A History of the Future, 1980-2000', WIREd Archive 5.07, July 1997.

At the beginning of the period, the newly protectionist stance of the US badly affects Japanese exports of manufactured goods and the flow-on of protectionist policies in Asian countries is devastating to Japan and Korea (which exports 50 per cent of its goods to the Asian region). International pressure results in an extraordinary round of negotiations in 2002, culminating in China joining the WTO. The surprising change in US trade policy before 2002 brings with it a new trade agenda and renewed US leadership of the world trade liberalisation agenda. Asian tensions are mitigated by the increasing economic self-interest in China and the economic strength of the Taiwanese economy. The official line now sees China and Taiwan as two states of one nation. Technology plays a key role in world peace; it promotes wealth creation, albeit skewed in favour of western nations, and it unites culture, particularly in Asia.

### What happened in Australia

In order to achieve a world-competitive environment for Australian business, the Coalition Government introduced significant business taxation reforms in 2000. These were implemented along with ongoing productivity improvements in business and an unending process of adjustment to make legal, governance and government processes more efficient and faster. Government became progressively smaller but more focused over the period.

#### ***Reform married with activist industry development***

Australia continued an aggressive program of privatisation until 2010. This, along with outsourcing, made its public sector one of the smallest in the world and combined with competition policy made it one of the most efficient in the OECD. This freed up government resources to act as a potent catalyst to create the climate and the opportunities for businesses in Australia to take up the challenges of the new knowledge economy.

Government recognised that knowledge-based industries, not raw materials, were the way to wealth creation. Following the Action Agenda approach of the Federal Industry Department in the late 1990s and the Innovation Summit in early 2000, the Federal Government put in place 'Action Agenda 21C', backed by the business, government and education sectors. Important components of this were: financial support for new infrastructure to produce or broker new enterprises and linkages across industry 'systems'; creating new global brands as well as a global brand reputation for Australia as the vital place for new 21st century opportunities; producing clusters of excellence in the new high tech industries; and boosting the relevance, international quality and accessibility of all levels of education.

With their experience in outsourcing, governments had developed sophisticated skills in specification which facilitated innovation by suppliers and led to new products, services and ways of doing business. Further, all outsourcing contracts contained explicit requirements for skills and technology transfer to boost local industry capability. Governments undertook reform processes in the key sectors of health, education, transport and government information and delivering systems, and as a result became a leading edge customer for the IT sector and provided impetus for new enterprise and areas of world competitiveness. One of these was the health sector and as a result Australia was well positioned to deliver many highly demanded services into the ageing European, US and Japanese economies.

#### ***Free trade and international affairs***

Despite some inconsistency in US trade policy early in the period, and despite strong domestic resistance to tariff reduction in some sectors, Australia continued to support the ongoing opening of trade in policy

and practice and actively participated in WTO and the 2000 and 2003 trade rounds.

Australia's role in international affairs became more significant, and certainly more significant than its small population base would suggest. East Asia continued to be the most important region for Australian trade, although Europe and the US grew as a proportion of the total exports market.

In 2002 Australia, following its success in helping China into the WTO, adopted an orderly progressive expansion of Australia's immigration program targeted at globally skilled migrants. Incoming rates were increased, reaching 400,000 a year by 2015.

### ***Social security***

Disillusionment was evident around the world throughout the period because globalisation had not been able to deliver on its promise of wealth for all. Polls showed continuing fear of job losses and widespread opposition to free trade. There was fear of a backlash against open and deregulated markets.

By the end of the 20th century, technology, global competition and removal of tariffs divided the wealth and opportunity in Australia between rural and urban communities and between educated and less educated people. However, even skilled people were at risk. The group most disaffected was the skilled person traditionally employed in manufacturing who was displaced by technology or closure of globally uncompetitive business. For those people, traditionally reliant upon lower and traditionally skilled jobs, the answer lay in domestic and personal services to meet the needs of the global elites working in the hub cities of Sydney, Melbourne and Brisbane. Growth in domestic and personal services absorbed many workers and created opportunities for new service businesses. But there were no easy answers for skilled manufacturing workers in Australia and the impacts here were felt most keenly by urban males.

The response came from the market and from government as follows.

### ***Enterprise creation***

Commentators noted that throughout the 1990s the US economy, at the time of rationalisation, outsourcing and rapid deceleration of military industries at the end of the cold war, created many new small businesses and many jobs. In many regions, these enterprises were the engine of the local economy. It seemed that by breaking up traditional company and industry structures, an economy which was relatively unregulated and which rewarded highly individual enterprise could create enterprise and jobs. The US did, and so did Australia as it entered the 21st century. The fostering of an enterprise culture provided the impetus needed for the creation of many new enterprises and jobs.

## **Social welfare**

Public expenditure remained high in social welfare, in line with most OECD countries, although Australia followed the US direction in welfare reform, focusing on reciprocal obligation and programs of assistance directed at return to work.

An incremental increase in tax levels was implemented in order to deliver benefits to the unemployed, a move which was tolerated by income earners because of the benefits for personal and community security which were thought to result from an improved social security 'safety net'. Most taxpayers were also prepared to pay for increased spending in education for all, and there were recognised and much lauded improvements in the quality and accessibility of Australian education.

### Implications for business in Australia

In an environment of government leadership and business partnerships, educational excellence and effective business tax and regulation reform, Australian companies have been successful and the Australian economy has created satisfying and well paid jobs.

Key elements of Australia's successful economic structure were: a low cost business environment; access to well priced, appropriately patient venture capital without excessively onerous performance requirements; technologically literate boards of directors, investors, analysts and media; a pool of experienced entrepreneurs; and an internationally attractive and competitive taxation environment.

Additional competitive attributes were crucial to Australia's success.

- Government policies of privatisation and outsourcing had attracted capital, created new businesses and unleashed energy in the search for new economic opportunities.
- Australians, always fast adopters of technology, had provided Australian technology companies with access to a great test market of leading edge consumers.
- Australia had invested over a long period in its public sector R&D and maintained a high level of government funding. Pressures on public research organisations to find private sector capital had paid off and spawned better skills within the research organisations as well as many new enterprises. Australia's skills in many areas of technology became, and are still, world quality, and had often contributed to world breakthroughs.
- Deregulation of the financial services sector, including removal of the 'four pillars' policy, had sparked off rationalisation of the banking industry in Australia and higher levels of competition for the Australian market. Increased e-business and ongoing erosion of the banks' traditional products and services had forced banks to move to the leading edge by international standards and into international markets. Financial service companies had moved into Asia following the Asian crisis and taken with them many other Australian companies in joint ventures and alliances.
- Attacks on traditional industry value chains had come from Australian as well as overseas companies. One example was the early new entrants to financial services, which had been Australian mortgage originators. The flow of capital into Australia which followed the success of Australia's economic reform

at the end of the 20th century had opened opportunities for new business formation and funded mergers and acquisitions, creating a new dynamism.

- Australians had been responsive to environmental reforms and regulations. This had forced greater response from government, which had imposed environmental regulations, created consumer pressures for 'green' and opened up commercial opportunities for Australian companies to trial in the local market before finding markets offshore.
- Reforms of the business environment and education, as well as much internationally publicised leadership by the Australian Government through its collaborative industry development initiative 'Action Agenda 21C', had served to keep Australians and successful technology based growth businesses in Australia. Success breeds success, and business start-ups had benefited from proximity to successful enterprises. Australians had repatriated themselves from overseas, and there had been high levels of targeted immigration and relaxed visa policies for skilled people, all of which had created the diversity and energy needed for the 21st century global knowledge economy. All of this energy and success, this demonstration of preparedness to undertake substantial reform and take on challenging environmental regulations, created the Australian brand. Where previously 'Australia' meant no more than cold beer and barbecues, it now stood for youthfulness, vitality and where it is at — the place to invest, the place to locate, the products and services to buy and where to look for the next new and exciting innovation.

Australian companies have successfully competed on the bases of new ideas, strong global brands, secure customer relationships, unique and defensible technologies and speed in taking an idea to market.

While ideas and discoveries were difficult to protect legally, knowledge and the commercialising of ideas became the competitive advantage of an organisation and the core competence of most organisations, applied across the value chain. Companies have acted to protect their intellectual property by adding layers of unique competence to the business: in service, customer relationships, logistics, brand and company prestige.

Huge multinationals and global organisations have dominated the global economy, but Australia has succeeded in forming alliances that kept a significant number of Australian companies on the same team as the global corporations.

The online economy spearheaded many new technology-based businesses. Australia was as good as anybody else in identifying new opportunities, particularly in services and in designing and going to the market with globally competitive offerings.

Although the US developed an unassailable position early in the internet

years, Australia has built support and secondary roles in niche areas linked to the major sites.

Driven by the huge movements of goods around the world and the changed structures of business because of e-commerce, Australia has built considerable capacity in logistics and transport and became the major hub into East Asia. Privatisation of Australia's transport infrastructure has enabled it to build multimodal transport companies suited to this key role.

Fragmentation of traditional value chains have created many new back-office business opportunities and new intermediary roles. Australian business had been quick to identify and exploit the opportunities.

The Asian crisis had created many opportunities for Australian service companies in software and systems, and in finance and banking.

By 2010 the major automobile companies were producing a new generation of electric driven vehicles, based on fuel cell technology. Australia's automotive component manufacturers became part of the action, providing specialised parts and ongoing R&D investment and technical skills.

Australia also participated in the development and commercialisation of distributed power in the form of a system of local, smaller power generation plants.

As a net exporter of knowledge in pharmaceuticals, Australia had been able to find strong applications for the outputs of research in the Australian food industry. Australia had developed a reputation for clean and green produce, and growing demand for food imports in some Asian nations, and an efficient transport infrastructure, have created a successful food industry.

Australia had a small but excellent research capacity in genetics. The building blocks of knowledge in this area the genes were owned by overseas (US and European) companies. The path forward for Australian companies was in service applications, building on our reputation in medicine, with worldwide markets using our online technologies.

Generation X's endeavour, love of lifestyle and experiential leisure activities, plus unbridled global competition, supply side overcapacity and rapid copying and degrading of brands and product and service features, have generated amazing new industries. Bungy jumping was a small beginning. Adventures at the edge of space, such as free falling then parachuting from the edge of the stratosphere, were the bases of some of the high risk, outrageous, highly commercial and well organised new businesses which have been created during the past 15 years. Many of these began in Australia, which has traditionally been a source of adventure businesses, many globally successful. All of these businesses have strategic online communications characteristics.

The sheer number, variety and segmentation of goods and services demanded by the new consumers have created niche opportunities; speciality markets within the retail environments are now met by product specialists. It is now commonplace for retailers to offer specialised goods to meet any taste, medical or religious requirement. The niches are supplied by integrated niche suppliers, who are able to guarantee the quality of the product, provide after-sales-service and product replacement and who often supply a skilled retailer to ensure best representation of the product in the store. Most retail environments operate around the clock, seven days a week, in online and physical environments.

Australia has developed world class education in terms of quality, access and relevance to the knowledge economy. Reforms in the education system had seen the introduction of enterprise skills — innovation, strategy, creativity, insight, foresight and imagination, and strong integration between learning, work and community. Australia understood that success in becoming a good home for value creation required attention to all of the elements of innovation — capital, skills, ideas, technologies, business experience, risk taking culture, confidence, access to leading edge customers — which make up a complex interactive commercial system. Australia has created the critical mass from the base of excellent technical education and R&D, to which had been added enterprise skills and rewards for risk; that is, an economic structure that attracted venture capital from around the world. ●



# Sound the Retreat!

Australia really believed in 1999 that we understood globalisation and that we were on the path to achieve all of the advantages of an open world economy and open societies. We were wrong. The political and social structure was ill prepared and we in Australia witnessed a worldwide retreat from the path of globalisation. Only after some hard lessons did we again launch into world trade discussions and attempts to achieve a multilateral world order. We recognised the imperative to address social and cultural aspects as comprehensively as we address economic and environmental matters.

The lessons of the period for Australia were profound. Cutoff from equal chance of access to global markets and without the old ties to 'Mother England' or 'Brother US', Australia had to forge new bilateral trade relationships, as well as attempt to keep the existing ones solid. Trade was built on the efforts of individuals creating and securing these relationships which sprang from our multicultural society, our proximity to Asia and the energy and tenacity of a generation of entrepreneurs who pushed their way through the trade barriers and political minefields of the first decade of this century.

In a world of revived trade barriers and nationalism, we pin our hopes on business relationships, reinforced by our political relations with individual nations, and play to our strengths as a business and cultural gateway to Asia.

*Sydney Morning Herald, 29 December 2010*

## **Special Feature: The recession is history — just ask Kylie Phan Trung**

*Ten years into our third millennium we look at an Australian business that, despite dramatic realignments and reverses in international affairs, is paving the way to a bright decade. Forget the Gloom Times, says Kylie Phan Trung, the Boom Times are just around the corner.*

Profile by Lucy Diamond

As she sips ginseng tea from a Ming porcelain cup, the pot of white thai spider orchids on her glass desk setting off her dark hair and plain elegance, Kylie Phan Trung, 45, an undisputed queen in the Australian business world, looks back on an astonishing episode of empire building.

# Sound the Retreat!

The CEO of Knowledge4Life, and recipient of an OBE and an OAM, has a broad, pleasant Australian accent and a down to earth manner. Moving easily between seriousness and laughter, she exhibits the qualities of intellectual flexibility, detachment and lateral thinking which have driven her strange success-in-the-face-of-all-odds. She is at home with herself and her power.

Phan Trung credits the upsurge of interest in Buddhism in Australia in the late 90s for nourishing her entrepreneurial instincts.

'I was in the right place at the right time; as a committed republican, a sports fanatic, and a Buddhist practitioner who can relate across the cultural barriers between East and West. We have so much we can give each other — it's yin and yang.'

The daughter of Vietnamese immigrants and a graduate of Wollongong High School, Phan Trung was unusual in that she didn't take the culturally expected route of university and a profession, unlike her three brothers — respectively an accountant, a lawyer and an educational psychologist.

Instead she trained as a hairdresser and beautician, starting her first business above a shop in Glebe Point Road. 'The retail market wasn't keeping up with the advances in cosmetic surgery,' she says. The patients got home from the hospital, saw themselves in the mirror and burst into tears. They would then rush to the local beautician. Who else could cover the surgeon's tracks until the scars healed? 'But no-one was training the beauticians,' says Phan Trung, 'so I launched my first vocational courses.'

She realised that because medical advances were happening so quickly, her beautician trainees would need to keep returning for updates. Phan Trung marketed her courses as 'open ended, ever evolving' and named her business Knowledge4Life.

Knowledge. It's one thing to know that we need it — another to know how to get it.

At night she continued to study additional courses in massage, e-commerce, international law and various Asian languages, as well as what she describes as a 'grab bag of personal development trainings'. Some of them were a bit too out of this world, she realises now, but when bankruptcies, suicides and unemployment reached a record high three years ago, she was able to weave some of these courses into her vocational training programs.

'I learnt a lot that has been of great value, especially in the conflict resolution and win-win areas. I love win-win!'

Her courses were a hit — clinics even enrolled their nurses — and the now familiar Knowledge4Life learning tree logo sprouted throughout suburbia.

Next she expanded her training centres nationally, and included courses in business and IT studies.

All through the Gloom Decade, Knowledge4Life kept expanding its curriculum, learning from its 'students4life'. When her brothers became directors of the

company and began adding their own input she gained valuable highly skilled and committed executives.

Then came a miracle — Phan Trung's Asian miracle.

The new courses had been pretty basic at first, like triple bottomline bookkeeping, and a series of 'First Step' hands-on introductions to architecture, engineering and hospitality. Then, almost on a whim, she tested a course on 'Sex & Business, East & West'.

'It felt like a wildcat oil strike,' she says.

Paneloads of people poured in from Beijing. Her timing was perfect. At the diplomatic level, China was already seeking Australia's help in various socio-political areas — welcoming Australia's western know-how and independent spirit. The managerial class now swarmed to Phan Trung's SexBiz classes, seeing them as a rite of passage on their way to do business with America without becoming too Americanised.

Phan Trung credits her win-win philosophy with getting the East West fit just right.

Australia's self image is that of a country of rugged individualists, and Asia is seen as a region for whom the collective good has always been valued above that of the individual. 'There is no one way,' says Phan Trung. 'Our challenge was to find a win-win solution utilising our different styles, which we did.'

The SexBiz EastWest classes soon became famous, drawing students from Singapore to Katmandu. 'Our classes were pretty raw in those early months,' she says, 'covering everything from conversational tips for the unisex office urinal to the contractual legalities of a handshake.'

Asked how she copes with today's lack of funds for research and innovation, Phan Trung utters the magic word: 'Collaboration!' She cites her alliance with Shred4Bread, a surf school that draws in the Shanghai teenage 'Silicon Emperors' for indoor and outdoor learning thrills. Shred4Bread is independent, but it is in a loose alliance with a surfboard maker and the wacky Australian streetwear designer Hot Pants. 'Once you start collaborating,' says Phan Trung, 'the networks keep extending.' Another spin-off is snowboarding trips to New Zealand with a mudbath bungy jump. 'The kids go crazy for it!'

Australian education is favoured because of its long tradition of nourishing free thought and its lateral, free flowing teaching style. 'We teach them to think on their feet, as well as upside down.'

Now the Americans are starting to arrive. Knowledge4Life launched a second stream of etiquette courses with reversed orientation. 'The Yanks are taught the nuances of bowing, and why an oriental "yes" can often mean "fat chance".'

The original core business of training beauticians has not been neglected through

# Sound the Retreat!

the dizzy phases of her firm's evolution. As an offshoot of Phan Trung's experience in grooming the cosmetically enhanced corporate elite, she recently launched a subsidiary vocational network, KarmaCare, to provide certified highly trained nannies in Asia. 'KarmaCare exudes a lot of feminine, nurturing energy, which I think people appreciate.'

It seems so. Her Asian franchises are booming, and she is integrating nanny training with English language courses, another winner. 'Don't pin all the success on me,' she says, smiling as she dabs KarmaCare's Millennial Consciousness Parfum behind her be-pearled ears.

'When all my brothers got married and brought their wives into the business — wow — that's when things really got humming.' One wife is of Chinese European descent, another a New Zealander with Maori blood, and the third is the famous actor and beauty known as Kiku Ironbark, who is of Aboriginal Japanese descent from a Broome pearling family. Ms Ironbark is now the face and spokeswoman for the continuing beauty and grooming side of the company.

All of Phan Trung's multinational nephews and nieces are used in Asian promotional campaigns, with the theme 'We're all a family' — a sentiment which engenders a warm inner glow in a world where traditional alliances are rapidly shifting, and techno-globalisation has left Australia behind, once again on the edge of the world.

It is the contribution of inspired entrepreneurs like Kylie Phan Trung which has helped position this country — for good or for ill — as 'the Switzerland of Asia'.

*NEXT WEEK: Lucy Diamond on MEN! Why the poor darlings will never claw their way back to the top!*

## The way we were

At the end of the 20th century Australia was confident that strong trends to a global, open economy would continue. We examined the opportunities for online and knowledge based businesses, for while the internet bubble on the US stock exchange seemed precarious, it was exciting, heady stuff and the big challenge seemed to be just how to capture our share of the spoils. Of course some Australian companies did, although to do so they often moved themselves close to the epicentre of it all — the US.

The warning signs were there that globalisation was no sure thing, but the signs were underestimated. In the early years of the new millennium, some myths of globalisation were exposed. Globalisation had worsened the effects of growth and development and, instead of the economic prosperity and social stability that it promised, globalisation often delivered economic turmoil, political and social tensions, and devastation to the world's peoples and resources. As early as 1998, the call for a more robust international financial and capital architecture was heard increasingly in the wake of the Asian financial crisis.

Consumerism, new communications and US dominance of new media threatened the demise of national sovereignty, individual cultures and contributed to the lapse in spirituality. The proliferation of global corporations flattened national borders and also increased cultural homogeneity. The promise of online global connections creating one world — breaking down the tyranny of distance, bringing information and opportunities for education into every community — coexisted alongside the destabilising impacts of global activists, NGOs, politicians in opposition, and citizens who created a global soapbox of the internet. Citizens switched on to the internet, and in doing so switched on to the global downsides and became outspoken opponents of it. Concerns included environmental destruction from price competitive systems of production, cultural colonisation by the US and marginalisation of nations and people.

Nationalism started to hit back even before the end of the 20th century. This was illustrated by Japanese resistance to removing barriers to their rice markets, the US imposition of tariffs on lamb from Australia and NZ and the swing in political feeling in the US. George W Bush successfully campaigned on his compassionate conservative platform to win the US presidency in 2000. The Bush administration pursued a policy of economic nationalism, which crashed the experiment of free trade and halted the upheavals it was causing on every continent.<sup>1</sup> The *Wall Street Journal*<sup>2</sup> noted the US swinging vote was anti-GATT and that, historically, the American right had always been protectionist.

The push to globalise had strained global relations everywhere, but the free trade bridge strained under the weight of the EU-US tussle of the 1990s. Some US commentators were of the opinion that the WTO was a European tool, not

1 *Wall Street Journal*, 18 May 1998.

2 *Ibid.*

an unbiased officiator. Europeans wanting power over US policy transferred to the WTO was understandable, since the EU had two dozen votes to America's one.<sup>3</sup>

There was American opposition to dealings in Asia too, not least the prolonged current account surplus with Japan and opposition to open trading relations with China. China-US relations were considered the biggest single contingency in setting the world in a global mould. However there were fundamental ideological differences as well as issues around trade barriers, a bone of contention between the US and China for a long time.

Republicans asked: is it free trade we have with China, when they steal our intellectual property, shake down our companies for technology, put a combined VAT tax-tariff of 40 per cent on US goods and run a \$50 billion trade surplus at our expense? In the trade wars China and other mercantilist regimes are waging against America, Republicans saw free trade as amounting to unilateral disarmament.<sup>4</sup>

*China Commercial News* commented in 1999, 'pirating of foreign products, such as movies or software, runs rampant and has become a serious bone of contention with foreign nations.'<sup>5</sup> In 1996, 320 types of computer games circulated in China. Of these, only half were original programs and counterfeit sales were typically double that of the originals.

At the end of the 20th century, commentators expressed mounting concern about the incalculable risks associated with the instability inherent in the whole 'system' of global capitalism. They also noted the inherent instability of a single superpower in this system and that the US had a distinct lack of experience managing multi-polar as opposed to bipolar (Cold War) relations.

However, for all of the issues of politics, economics and nationalism, the last word on the problems stemming from the process of globalisation came from workers around the world. An international conference on alternatives to globalisation held in the Philippines in 1998 produced the following list of impacts of globalisation and open and competitive markets:

- a widening gap between rich and poor people and rich and poor countries;
- dissipation of working class gains — widespread unemployment, job insecurity, loss of benefits, destruction of trade unions and commodification of migrant workers;
- the reversal of limited gains in agrarian reform, resulting in landlessness and rural unemployment;
- global environmental abuse; and
- erosion of the gains of social movements and regression of democracy.

### Drivers of change

In this scenario Australia is a victim of this backlash against globalisation and the reversion to protectionist trade policies and nationalism.

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3 Buchanan P The American Cause website, 'Globalism versus nationalism', undated.

4 Ibid.

5 Buchanan P The American Cause website, 'A European assault on US Sovereignty' 18 March 1997.

### **1. Trade barriers**

The Seattle WTO round in 1999 is inconclusive and fails to gain commitment to a further set of tariff reductions. The WTO loses substantial credibility and potency and members feud amongst themselves and erect trade barriers in response to domestic lobbying. Developing countries develop apathetic attitudes to the WTO, suspecting it is a vehicle of exploitation of their markets. The new US President George Bush yields to party pressures and strong domestic lobby groups for protection of industry and jobs and openly practices economic nationalism. Reaction around the world is as one would anticipate. Protectionist approaches spring into action from governments everywhere on a tit-for-tat, sectoral basis. China rejects proposals for it to join WTO and any world influence to rein in disruptive piracy and other trade practices is spoiled. Bilateral trade is the order of the day against a world political organisation that reflected many age old squabbles and cultural allegiances.

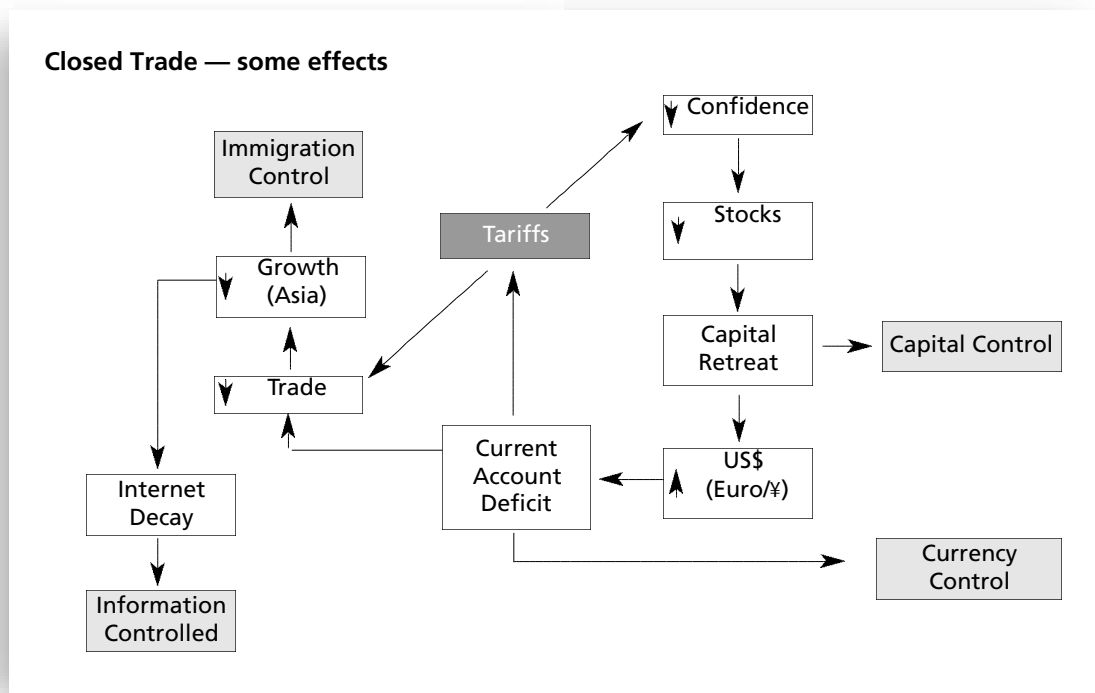
### **2. Economic downturn**

The success of IT companies that drove the US economy and the internet bubble at the end of the 20th century was predicated on access to a global market. Investment in internet stocks and IT related infrastructure companies had been driven by the expectation of impending exponential growth. Marginal take up of IT and e-commerce was inconceivable. The reversion to protectionism in the early 2000s jeopardised this market and shook the confidence of investors worldwide.

Since the climactic rise in Wall Street stock prices had begun in 1996, speculators had questioned the validity of share prices relative to company worth, in effect asking: bubble or boom? Stephen King, director of economics at the London office of Harvard School of Business and Commerce, developed a checklist of bubble criteria and concluded it was indeed a bubble. King noted that bubbles burst when liquidity support fades. Trade retaliations against the US, restrictions on US dominated world media — including encryption of the internet to censor content that conflicted with national religious ideologies — and national government procurement policies which favoured local products and services shakes investor confidence, and the Dow Jones falls.

The falling equity prices set off a series of actions and reactions, feeding off each other and tightening into a global protectionist spiral.

As promised by Alan Greenspan in 1999, a pre-emptive Federal Reserve uses monetary policy controls to soften the landing of the share market tumble, effectively drawing out the ordeal and causing bear markets to occur worldwide. For more than 10 years protectionist policies in trade of capital, currency and people are pursued and the situation worsens. As a result of increased protectionist sentiment worldwide, world trade falls in the period to 2010. This worsens nation to nation relations and, in response, governments inadvertently exacerbated the problem by manipulating capital and labour flows.



*Asia is slow to recover*

Growth slumps worldwide during this time. Asian economies, still wounded by the currency crisis of the 1990s, find that the path to recovery and then growth is much slower. Deteriorated global relations, contracted international trade and restricted access to markets slow the inflow of capital and the outflow of exports. Some economies are impacted more negatively than others. Korea, which exported mainly within the Asian region, has an easier time than Japan, which has a large positive balance of trade with the US. Japan is also affected by the cautious approach of citizens, who react to the downturn by increasing savings from their already high level and curbing revival of domestic consumer markets.

China, now established as a global supplier of very cheap commodity items, is able to maintain a competitive position in many markets, despite tariffs into those markets. Fuelled also by its huge domestic marketplace, China continues to grow as a manufacturer of low priced goods. It does not receive the inward investment in new technologies and capital equipment from the West that it had previously, but through its relationship with Taiwan as a low cost manufacturer of IT hardware, and strengthened relations with India, it establishes improved technology value-adds. Together China, India and Taiwan supply IT and communications software and hardware to Asia.

**Geopolitical dissonance**

George W Bush pursues the policies outlined in his presidential campaign —increased defence expenditure, redefinition of the relationship between the US and China as one of ‘competitor’ not strategic partner, and support of the Taiwan Relations Act. America shores up postwar alliances in Asia, increasingly by its presence rather than treaty agreements. In so doing, America guarantees security for its allies, but inflames tensions with China. A warmer China-India relationship develops out of Chinese

pragmatism — relations with India were perceived to be crucial in case US confrontation over Tibet escalated and threatened access to resources. Stronger political ties and diminished trading opportunities elsewhere make for bilateral trade across their shared 1500km border. By 2000 software exports to China from India are increasing 10 fold per annum, while hardware and manufactured goods move in the other direction.

In 1999, the China/India/Russia alliance forms, motivated by the 'irresponsible' bombing by the US of the Beijing embassy in Kosovo. There is also an undercurrent of concern regarding the lack of another superpower to temper the US, and a fear that while the Euro remains weak, the process of globalisation and the online economy would be a process of world economic domination by the US.

What happened in Australia

### ***Call to put Australia first***

While Australia had demonstrated support for WTO agreements on tariff reductions, there was always resistance domestically from people losing jobs, and towns and communities losing industries. Rural Australia was hurting by the end of the 20th century and political reality, as well as a lot of good will from the cities, made rural jobs and industries a priority. Australia observed and felt the pain of protectionism happening elsewhere but was slow to respond because of the political belief that Australia had most to benefit from open markets. In this way Australia maintained a lot of international good will which would keep it in good stead in the next decade when securing bilateral trade relations became a key national competence.

When it was clear that Australia had nothing to gain from keeping markets open, an ad hoc series of market closures and protective measures were implemented in response to industry, rural and regional lobbies. It was difficult to assess the international political landscape in the absence of international agreements and the presence of myriad national self-interests. Without a formula, but guided by what markets were most important for Australia, companies enlisted support from government to shore up local markets and maintain and develop overseas markets through tariffs, selected procurement, targeted assistance, tied international aid and strict rules for foreign ownership.

Australia's international relations after 2002 depended strongly on creating strong bilateral relationships. Ministers developed strategies of no strategy — the Switzerland approach. Australia aspired to be politically neutral and balance a multiplicity of bilateral arrangements. As far as security was concerned, Australia passively complied with the US. As far as commerce was concerned, Australia attempted to access opportunities wherever it could.

A right wing pro-US faction developed in the Australian political scene, claiming that a policy of neutrality jeopardised our regional security and access to US

technology, satellites and finance. Although the US was a big investor in Australia, it did not rival the detailed and hands-on contributions of Australia's Asian partners.

### ***Impacts on business***

In the years of free trade decay and global demise (2001-2010), Australia suffered from reduced export opportunities, diminishing access to imports and the retraction of foreign capital.

Because the Australian market was so small, Australian companies had no choice but to look for export markets. Australian business saw its opportunities in Asia. At the government level, Australia continued to put resources into industries which would be competitive in the opening markets of Asia, investing in language, cultural studies and exchange programs, Asian commercial, financial and legal systems.

However the reality made this exceptionally difficult. The lost exports and invisible earnings markets led to yet more unemployment (which reached 13 per cent in the recession of 2006-2009). Retracted trade opportunities made it difficult to justify keeping strategic markets open and the short-sightedness of governments with three year terms constricted the possibility of any long term strategic response.

### ***Rural and resources industries***

In Australia, farmers and rural investors continued to have a hard time. By 2004, markets for many products had vanished, sending rural communities into depression. In the early years of the new century, major investors exacerbated the pain of rural Australia by selling up and walking away.

In 1999-2000 resource prices climbed on the back of renewed Asian demand and buoyant global equity markets, but these early gains were soon lost in the global recession. Nevertheless Europe, as a net importer of resources, bolstered some resource prices. Gold prices fell. Generally speaking, the less processed inputs, such as resources, were less affected by trade partitioning than manufactured products. In Australia, the resources sector was fortified by an influx of investment escaping the rural sector.

Cleaner fossil fuels continued to be the primary source of power until 2010, after which some of the energy innovations in transport cut in.

### ***Information and electronics industries***

Australian IT businesses became more specialised, shifting IT focus to market consolidation and tailoring. Australia developed strength in the areas of software-hardware integration and IT services and was able to capitalise on opportunities in China.

IT and internet companies and other high tech 'born globals' had nowhere to go. Better access to venture capital in 1999 and 2000 closed down with the downturn in the economy. The resurrection of the tyranny of distance once more meant that growth companies did not have access to the markets with the size necessary to underwrite their investment and enable their growth. The Australian Government fought to keep this sector by providing targeted procurement and barriers to entry from overseas products. This threatened to sound the death knell for Australian companies which, once removed from global exposure to competition, fell from the cutting edge. It was also detrimental for the public sector, which failed to achieve efficiency and productivity improvements. The best competitive and leading edge companies were forced to locate elsewhere, generally taking advantage of the large markets in the US, China and Europe.

As the global computer industry diluted, Australia accessed bilaterally negotiated opportunities in Singapore, Hong Kong, Japan and New Zealand to develop and supply niche items, telecommunications equipment and applications software, sold as components and coupled to service sales.

#### *Tourism and professional services*

The recession of the early 2000s resulted in reduced tourism, although Australia developed its role as the only approved non-Chinese overseas destination for Chinese tourists.

Australia's professional services exports had doubled in the late 1990s and continued to develop within Asian countries. In general Australia had a good reputation in Asia, and as the decade progressed, links and relationships with Asia grew with mutual goodwill and benefits.

#### *Manufacturing*

In a partitioned world, some pressure came off manufactured prices, but the cost-price squeeze in this sector was still inescapable. Australia did not attempt in general to expand its manufacturing capacity, nor was it able to invest in the lengthy and expensive process of building and positioning global brands, preferring to concentrate on marginal improvements in efficiency within existing plant. This meant that Australia was nowhere in terms of world competitiveness and presence for its manufactured goods when prospects for a newly globalised world emerged in 2010.

#### *Education*

In education, the early success of educational exports and the development of lifelong learning were rudely interrupted by the recession. The breakdown of the global IT industry had capped the brain drain to the US but also halted the technology and skills transfer back into Australia when Australians came home to work and raise their families. Australian business, through government prompting, took up the opportunity to secure and improve its worker base, and accepted an increased role in education.

#### *Employment and social effects*

High unemployment levels and the struggling economy meant formal immigration was capped until 2010. However throughout this period informal numbers swelled, giving a clear message that expansion of formal quotas was an essential safety valve. This happened from 2011.

By 2008 the impact of the retreat from globalisation was evident everywhere. In addition to unemployment, bankruptcies and suicides were up. Social tension re-emerged in the bush and the New National Party (an independent coalition of the old National Party with One Nation and fellow travellers drawn from all the other parties) gained the balance of power in the 2007 election.

## Implications for business in Australia

With the decay of globalisation and its accompanying export markets and opportunities, Australian business was forced back on its own resources. This meant a rethink of Australia's comparative advantages, a determination to 'play to our strengths' and a fresh analysis of where the new business opportunities and the strong industries and growth markets would be in a world where globalisation and free trade were constrained.

Position, neutrality and cultural understanding were revived priorities. Australia's multicultural community and proximity to Asia proved to be strong assets.

The focus for Australia was on delivering services to Asia and individual companies had success in arenas like the provision of engineering and architecture, accountancy and legal services to south east Asia, China and Hong Kong; accountancy and creative services to India; and legal services to the US, UK and Taiwan. Tourism, education and health services were also strong 'products'.

Increasingly, countries came to appreciate and value the Australian perspective of free thought and innovation, and demanded services from high grade consultants in the areas of medicine, environment and biotechnology. In this arena, Australia faced strong competition, most intensely from the human capital and brainpower of Singapore and Hong Kong.

The decision to supply or invest in Asian markets required in-market knowledge and presence, which provided Australia with opportunities in business facilitation and consultation. Europeans turned to Australia first for advice, especially about China but also about Asia per se, because of our proximity, personnel and political neutrality.

Opportunities also emerged from the vacuum in knowledge-based IT and communications trade in China and China-allied countries because of their detachment from the US. This was coupled with other opportunities for resources and high value, clean and processed food exports to these countries, notably China, Hong Kong and India.

Further, Australia's position was strengthened because of China's willingness to forge links and listen to Australia given our Western, but not American, bent. This, in turn, opened up opportunities for Australia as a regional facilitator, providing leadership on social, environmental and political issues. This also allowed Australia to play a key role in developing a substructure upon which nations could again convene to discuss multilateral trade, as the mood swung back in favour of more widespread global trade flows.

Closed trade had focused the world's most dynamic industries on tailoring, and Australians had always been good niche operators. The challenge was to access the capital to exploit these opportunities. Fortunately, Australia's superannuation funds, pooled since the 1990s, provided a source of home-grown capital available for investment in promising and productive projects.

Good strategic manoeuvring, in-market intelligence and nimble footwork were also required to facilitate business both by Australian business people and our politicians and trade and foreign affairs officials.

Australia's historical strength as an economy rich in small and medium sized enterprises, together with retention of more of our skilled IT professionals at home as global markets contracted, gave us a platform as an incisive hunter and gatherer of niche markets.

This was the key to Australia's success — neutrality, bilateral engagement in Asia and enough of the right tools to take advantage of the markets and opportunities available even in a world of imperfect trade and information flows. ✚



# Brave Old World

For a variety of reasons, Australia does not pursue the new emerging opportunities presented by the globalised, knowledge economy in any systematic or deliberate way. We are happy to rest on the laurels of our achievements in agriculture and mining, 'new' manufacturing, tourism and in some highly acclaimed information technology and medical and bioscience breakthroughs.

Australia does have its local successes; in particular, there are people and enterprises in Sydney and Melbourne which have become global players in high-tech, knowledge-intensive industries. But there are not enough of them and it's not 'our' success. As like as not, these companies are owned by foreign investors from the US, Asia and Europe, and we don't seem to be able to do much about it. Our clever people are siphoned off in the brain drain to the US and Europe, our clever ideas are incubated here and then emigrate for commercial exploitation elsewhere, and major Australian companies like BHP, Lend Lease and AMP move their headquarters to Europe and the US.

Australia's industrial and economic base is narrowing and our ability to generate wealth from the newest fast growing, high return sectors is diminishing.

Australia's comfortable lifestyle, natural endowments, adequate social security system and laissez-faire economic policies have created a complacency that doesn't recognise an urgency for change — until it is too late.

## Laconic Australia Lags Behind

January 2015

*The text of last night's controversial speech by Governor General Sir Ruxton Laws-Jones at the first night launch of the IMAX movie 'Sydney 2000 Olympics: Look Back With Pride'. A Government House spokesperson has denied suggestions Sir Ruxton was 'under the influence'.*

Have you noticed a lot of whingeing in the press lately from the intellectual nerds and so called 'futurists'? These superior beings have decided as one that this great country has 'missed the boat'. That we're too set in our ways, too protectionist and too taxed. Why don't these moaning minnies just leave the country, like all the other techno-maniacs and geeks who thought the grass was

greener over in Europe and the US? Good riddance.

Maybe these eggheads have made it big in their noisy world, but at what cost? There is more to life than technology. And there's more to life than being part of the rat race, especially as a cloned rat.

Some say that our standard of living has dropped compared with the rest of the developed world; that we have missed the opportunities. I say, look around you! Look at our beaches, our harbour. Our Olympic Stadium. And look at our social fabric: the backyard barbie, taking the kids to soccer practice, fish and chips at the RSL, taxi drivers who don't tug their forelocks but look you in the eye as an equal. What price our unpretentious Aussie lifestyle?

The moaners say that our protectionist trade policies have cut us off from the rest of the world. Let's be frank: that just might be a good thing. Speeding ahead with the online obsession — globalisation — many nations have lost their identity. You walk through the streets of London and hear a hundred languages being spoken; none of them English. You walk through Europe and what do you hear? — Yank gangster slang. Here, I think we are quietly proud of one very important thing ... the Australian lifestyle. Maybe we didn't make the choice consciously, but maybe our slow cautious jackaroo manner echoes our geography. We *are* an island. If God had intended us to go global we wouldn't have had those huge grinding and tearings of the earth that separated us from South America and from Asia.

When I look back I think this country started to come to its senses at the end of the millennium. There was the landslide vote against the republic. Why fix it if it ain't broke? The disasters caused by Y2K in Asia were a lesson for all of us that you can't trust technology. The obsession with globalisation and the so-called internet was shown up for exactly what it was — the emperor had no clothes! Just like all the sexpots on the internet.

Did you see all those X-rated sites before we closed them down? Most of them originated in America. When people say the Net spearheaded the knowledge age, I say, yeah, the carnal knowledge age.

Okay, so maybe we never quite became the Clever Country, but then a lot of other countries became a bit too clever by half, didn't they? How many of you want to go off and live in Bangalore or Bangkok? Strange, isn't it? — not a single hand shot up. But they'd all come and live here, if we hadn't closed the gate. And you can't blame them, can you? The stench. The noise. You can't walk the streets of any Asian Tiger-boom super-city without ear muffs and a smog mask.

Oh, but the moaners and the whingers say, 'poor Australia, sad Australia, we don't produce any global brands'. Oh, dear me. Pass the Kleenex. Sob, sob. We don't have the great Microsofts. We don't have the great Boeings. We don't have the great Nokias.

We have a great lifestyle, a great tradition, and great sporting champions. That's

what we've come to celebrate tonight, isn't it? The 2000 Olympics. Any of you who were there can't fail to be stirred by the memories of that incredible time, the pride of watching our athletes win, the unbelievable excitement of massed crowds and spectacles, stirring the blood like nothing else can. And now this completely new version of the original IMAX movie allows us all to take a trip back in time. Eat your heart out Nerdsville!

*Sir Ruxton reportedly staggered offstage to thunderous applause.*

ends

## The way we were

In 1999, the first comments on the 'Australian economic miracle' were reported by sources as authoritative as the Brookings Institute, the World Bank and the IMF.<sup>1</sup>

Experts and analysts were increasingly holding up the Australian experience as the model economy, as it had not only weathered the Asian financial crisis surprisingly well, but had also sustained an economic growth rate of 3-4 per cent, outperforming all the other developed, rich nations including the US, as well as its east Asian neighbours.

This was seen as vindicating the economic reform and liberalisation agendas pursued by successive Australian governments in the 1980s and 1990s. This economic restructuring included the float of the Australian dollar, reducing tariffs, labour market reform, tackling budget deficits and debt management of interest rates by the Reserve Bank.

Calls for more interventionist economic and industry policies fell on deaf ears because of Australia's strong economic performance in the last years of the 20th century.

The only dissonant note was that this economic miracle failed to produce jobs; unemployment in Australia stood persistently at around the 7 per cent mark. Job losses and the economic pain of restructuring fell disproportionately on the Australian community: rural and regional Australia were badly affected.

The gap between the economic haves and have nots found popular and political expression in the electoral inroads made by One Nation and other fringe and single issue parties with a protectionist agenda for Australia on both the social and economic fronts. This caused the major political parties to rethink the pace of economic reform and worry about their electoral standing in the bush.

More mainstream support for such views came from respected business people like Dick Smith, who proposed an all-Aussie food company to compete with the foreign-owned multinationals which had taken over our national icons like Vegemite and Sao biscuits.

Such calls resonated with the consumer public, as witnessed by the successful relaunch of the Advance Australia campaign and the disquiet which greeted Australia's failure to convince the US to back down and remove its punitive tariffs on Australian lamb.

These fears found their voice on talkback radio, but they were accompanied by a strong sense of Australian pride and identity — in our natural wonders, laidback lifestyle, achievements in the face of adversity, mateship and egalitarianism, our internationally successful films and film stars, and our sporting prowess.

These factors all combined to reinforce Australians' tendency to believe that 'she'll be right' and that there was no need to 'bust a gut' to create new industries in areas like electronics, biotechnology, information and telecommunications, new materials, environmental science and the like. After all, there were some great Aussie success stories of entrepreneurship and clever commercial strategies in these areas. The CSIRO was on the job and the Co-operative Research Centres program and various venture capital initiatives were creating new enterprises. Besides, all the traditional natural resources were still

<sup>1</sup> Hartcher P 'Australia: the Model Economy' *Australian Financial Review*, 14 August 1999.

earning well enough for Australia, and tourism and services were booming.

But something was wrong. It was as if there were two Australias: one in which international success had created wonderful jobs and lifestyles, and another in which unemployment, casual, part-time and insecure work created poverty and disenfranchisement. It was the story of the bush versus the city, but also of national versus global ownership — and it was the latter where decisions were made and power was held. One example was the film industry. Australia witnessed the growth of its local film industry, driven by Hollywood's interest in Australia as a low cost but expert location and recognition of the few Australians who became international stars. But many Australian artists who didn't make the Hollywood-determined 'cut' were either out of work or under-employed and earning poorly, and more than 90 per cent of the films Australians viewed were from the US.

And other things were changing. At the end of the 20th century, there was a real seachange afoot — it was called the knowledge economy. In the knowledge economy what we know (brainpower and know-how) becomes more important than what we produce or manufacture when it comes to generating wealth and jobs; and networking technologies like the internet and electronic commerce dramatically transform the way business is done and the way in which people buy.

The old world and its rules were changing, and the challenge was to ride this wave of change or be dumped.

### Drivers of change

This is a scenario characterised by:

- the emerging globalisation of financial flows, people, information and goods traded freely across borders;
- the knowledge economy and its implications for value-adding across the spectrum of manufacturing, mining, agriculture and services, which becomes the way in which companies and countries compete; and
- more and more economic activity happening online.

All the promises of the connected, networked economy and society are realised for many countries, but not automatically. Countries need to create their own place in such a globalising, interconnected world and make active choices to build their own capabilities and opportunities to take advantage of the new and emerging industries that arise.

Australia faces some fundamental obstacles in meeting the challenges of this new economy. Firstly, Australia has very little influence over the direction of development and growth of global business. It is a taker of global trends, not a maker and shaper. This is often exacerbated by physical distance from 'where it's all happening'.

Further, there is not a consensus in the Australian community, or within governments, about the best way to advance Australia's prosperity and about where the most potent sources of our comparative and competitive advantage lie. Some are vocal advocates of wholesale economic liberalisation and reform, while others say Australian jobs and industries must be protected at all costs.

The end result is that Australia lacks a clear vision and the conviction to make the changes needed for transition to the new knowledge economy. And it has no real incentive to do so, given past economic successes.

The key driving forces at work in this scenario are as follows.

### ***1. The internet changes everything***

As the most prominent of the new networking technologies in an online, connected, global, screen-based economy, the internet impacts on everything. The internet makes possible new products and services, and new ways of organising markets, connecting with customers, managing relations with suppliers, structuring corporations and designing business processes.

Consumers have the power to shape the products and services available, where and how they are delivered, and at what cost. Australian consumers have worldwide access to a greater choice of products and services at the lowest cost, and don't have to buy locally.

The new information and communication technologies cause a business transformation, challenging the competitiveness of many large companies in traditional industries and the way the service sector operates. The new entrants to the market are typically not Australian companies. Australia offered them a great test market and was often the first to benefit from their vision, but does not capture these benefits long term. Many Australian companies are swept away by these new entrepreneurial enterprises. Australia now has an even higher level of foreign-owned companies, with new entrants joint venturing with locals only to trap the historical benefits of brand names and existing customer relationships.

### ***2. Business knows no borders***

Markets are becoming borderless, with a free flow of goods, capital, people and information.

The value chain of businesses can be managed from anywhere in the world. High growth, often technology-based, businesses migrate easily out of Australia.

Skilled Australians are welcomed to the US and Europe and offered high salaries and good career prospects.

### ***3. Comparative advantage and information ownership are short lived***

At the extreme, all but the newest and most complex opportunities are visible to all businesses around the world at the same time, stripping away the bases for comparative advantage built around access to information, markets, new designs and ideas.

China and India, in particular, quickly compete away product uniqueness. The key to business survival is rapid and aggressive competition for new ideas, stronger brands, secure customer relationships and

unique and defensible technologies.

Australia's traditional economic activities, such as agriculture and manufacturing and our early inroads into IT and telecommunications servicing, suffer at the hands of low priced Asian competitors.

#### ***4. Business and investment go where value creation is highest***

Footloose global businesses look for environments in which they can generate the best growth and returns — not merely low-cost taxation regimes and good investment incentives, but environments in which they can access skilled people, leading edge customers, responsive suppliers, knowledge, clusters of support industries, transparent and consistent regulatory environments, appropriate venture and development capital, research capacity, test markets, assistance with commercialisation efforts and the like. These factors combine to cause some locations to become good homes for value creation, and therefore major magnets for global business.

The process is self-fulfilling. The more enterprises that perceive a location to be good for business, the more companies are attracted, and the stronger the location becomes. It is a virtuous circle.

What happened in Australia

#### ***Resistance to change***

Over the last half of the 20th century, Australians experienced enough of both the 'lucky country' (the fruits of their natural resources and physical environment) and the 'clever country' (a history of inventiveness and early scientific and technological achievements) to become complacent.

There was a sentiment of 'if it's not broken, don't fix it'. As life had largely been good for most Australians, there was no real incentive to change.

There was an odd mixture of cultural cringe and patriotism that resulted in Australians being able to simultaneously believe in two contradictory precepts — that Australia is the best country in the world, and that nothing in Australia is as good as what is produced overseas.

#### ***Australia equivocated on economic and industry policy***

Australia's approach to economic and industry policy was neither fish nor fowl. Community backlash in response to losing Australian jobs and industries put a dampener on the zeal with which governments pursued economic reform, privatisation and competition policy agendas. But at the same time, governments were nervous about picking winners and shied away from intervention to carve out new opportunities and markets and build Australian

capability in the new and emerging high value, high return, high growth sectors of economic activity. Australia oscillated ineffectually between approach and avoidance, and ended up like the proverbial rabbit in the headlights.

This situation manifested itself in two ominous and counter-productive developments. On the one hand there was a resurgence of protectionist sentiment in Australia and a slow-down of efforts to open Australia up to competition, improve the cost structures for business and make its capital, infrastructure and labour markets more flexible. And on the other there was an almost pathological aversion towards more activist industry development policies to help Australian businesses to 'tool up' and to capitalise on opportunities generated by the new globalised, knowledge economy.

### *Rise of protectionism and economic reform fatigue*

Australia was an active and supportive participant in the Seattle round of talks on world trade held in 2000. However by 2003 it was a different story, not only in response to the hypocritical 'do as I say, not as I do' stance of the US on free trade, but also because the Australian population was not committed to the trade reform process, which to them seemed only to cause loss of jobs and increased foreign ownership.<sup>2</sup> Australia became more protectionist again. Tariff reductions stalled and selected trade restrictions were imposed.

This protectionist approach was an attempt to protect Australian jobs and industries, and it was successful for a period. But, as the economists predicted, it led to a more inefficient Australian economy, higher costs, lower standards of living overall, and the loss of an important impetus for Australian firms to lift their game and meet world's best practice. Australia expected only minor 'tit for tat' retaliation, but instead faced a strong reaction from some key Asian countries including China, which at that time was making the crucial decision to join the WTO. As a result, Australia lost key export markets in Asia and Europe.

The same protectionist sentiment led to a political backdown from optimum solutions in many key areas such as business tax reform, GST and reforms in the health industry. It also led to the petering out of economic reforms on privatisation and competition policy. Strong reform in Australia was increasingly frustrated by party politics and by the lack of control by governments of the upper houses of parliament. As a result, government reforms were almost always diluted in their strength and effectiveness. This cautious political approach was reinforced in the electorate by an increasing loss of confidence in politics and politicians.

The NSW and Victorian power industries were badly affected. Losses were incurred by investors when the privatisation process was halted and Australia failed to create a national power market. This led to an erosion of confidence and an exit of capital from the utilities sectors.

Privatisation of transport also came to a halt. This resulted in Australia losing opportunities for consortia of finance, logistics and transport companies to create new integrated multi-modal transport companies, which emerged as one of the key new industries in the 21st century. This could have been a great opportunity for Australia to provide services into Asia.

<sup>2</sup> Kelly J 'Free trade report exposes NIMBY traits', *Australia Financial Review*, 8 July 1999, p 21.

Without these economic reforms, reduced business costs in Australia were not achieved. Governments were faced with capital investment in retained ageing assets, which placed an extra burden on the public purse.

The Ralph Review of business taxation in Australia in 1999 made recommendations on lowered rates of corporate tax and capital gains tax. These reforms passed through the Senate and were important, but they did not prove to be enough to give Australia a globally competitive business tax regime.<sup>3</sup>

#### *Aversion to active industry development policies*

The economic orthodoxy that markets always deliver the optimum results proved to be a persistent philosophy for Australian governments. It blinded them not only to the structural flaws and imperfections in Australia's economic and industrial base, which markets cannot address, but also to the fact that the Australian business environment was not well positioned to take advantage of the new commercial opportunities to achieve long term growth in a wired, networked world.

Deliberate and targeted action was needed to overcome Australia's critical mass and lack of scale disadvantages, to capitalise on new technologies, to aid in the commercialisation and investment-readiness of nascent Australian inventions and scientific advances, and to secure new markets for innovative start-ups and new ventures. This required governments to take explicit initiatives in collaboration with the business community, which they were loath to do. Some examples of the initiatives which could have been taken are:

- strategic use of government purchasing to provide a home market and to boost opportunities for world competitive Australian firms;
- incentives for research and development and commercialisation of research;
- investment attraction programs for emerging industries;
- fostering clusters and centres of excellence in strategic industries; and
- support for technology and science parks to leverage and diffuse new technologies.

This lack of initiative, combined with the slow-down of economic reforms, was a 'squeeze-play' that caused Australia to miss out on opportunities to secure a place for itself in the high growth, clever industries that emerged in the early years of the 21st century, and to obtain the jobs and productivity benefits that accompanied them.

<sup>3</sup> Colebatch T, quoted at the Outlook Australia Forum, *The Age*, 30 July 1999.

## ***Economic developments***

By 2000, growth in Australia was reliant on consumer spending and on the boost provided by infrastructure and property spending, immediate jobs and tourism from the Sydney Olympics. But domestic consumption could not form the basis of long term growth, and while the Olympic Games were an economic and political fillip, the economic benefits were short term. Australia did not secure itself a long-lasting legacy from the Games by using them as an opportunity to position its brands internationally and create new service industries around activities like design, construction and management of facilities, environmental best practice, electronic ticketing and smart payments, and intelligent transport systems, for example.

The year 2000 was a troubled time for Australian business. Y2K compliance imposed high costs and created problems for business trying to attract and retain highly skilled IT personnel. 2000 also saw the introduction of GST and other tax reforms, superannuation changes and new accounting standards.

Wage claims, which had been kept well at bay for several years, began again in retaliation against the introduction of the GST. Wage increases pushed inflation above 3 per cent, causing the Reserve Bank to lift interest rates; the major bank home mortgage rate at 30 June 2000 was 8 per cent.<sup>4</sup>

Until 2003, commodity prices were weak. No real strengthening of prices occurred until the Japanese and Asian economies regained their momentum, which began a period of economic growth in 2005. But commodity prices never regained their pre-1990s levels. During this period the dematerialisation of goods and hardware continued apace — more and more was transacted and traded in cyberspace, more and more could be received and retained in an electronic form, and micro-electronics, mechanics, new materials science and biotechnology changed the nature of many processes and products which were previously materials-intensive.

In 2002, with interest rates up, increased public spending and increased protection, the economy went into recession. The value of Australia's traditional strengths in agriculture, mining and resource industries eroded. This, together with the decline in efficiency and competitiveness of manufacturing industries and the growth of service businesses, changed the landscape of Australia's industrial and economic base.

For growth to be sustained, companies (and Australia as a whole) needed strong coverage in each of the three 'horizons'<sup>5</sup> of business and economic activity, as follows:

- Horizon 1 Traditional, core and mature businesses: for Australia, these are mining, agriculture, manufacturing, metals, chemicals.
- Horizon 2 Growth engines: for Australia, these are service industries like communications, film, recreation, health and education services, construction, business and personal services, retail, finance and insurance, transport, hospitality.
- Horizon 3 Future growth options: for Australia, these are information and knowledge-based industries like biotechnology and health, new internet, IT and electronic commerce services.

4 Norman, Professor N, *The Age Economic Survey, The Age*, 29 July 1999, Business, p 4.

5 White, Baghai and Everingham, 'The Alchemy of Growth' McKinsey & Co, reported in *Australian Financial Review*, 20 August 1999, p 56.

Australia was not well-placed in these Horizon 3 sectors, which are based on innovation and knowledge. Countries that innovate grow faster than those which don't — the challenge was for Australia to create the new business models and enterprises which were the source of growth in the new knowledge economy. Australia failed to meet this challenge early enough and well enough.

### ***Failure to capitalise on the global, technology-rich online economy***

Australia did not grow major global companies or successful global brands, nor participate effectively in global networks.

The rules for new technologies were largely written in the US. The US market was so large it established an unassailable position in internet business in the early years. Its strong economic position well into the first decade of the 21st century meant that private investment in R&D and technology commercialisation, as well as the acquisition and relocation onto US soil of strong technology-based businesses from around the world, kept it in advance of the world. Australian businesses were the target of global expansion by US internet businesses, which were cashed up at the time of the internet bubble and were active buyers. Australia watched as its own talented individuals and promising high growth companies moved offshore.

Huge investment by US and European companies in biotechnology and genetics research created an insurmountable barrier to all other nations and companies. In a landmark ruling in 2003, an international court of law ruled that companies which invested in the discovery of a particular gene could own that gene. This ruling pushed Australia out of the genetic technology race. In other sectors such as pharmaceuticals, Australia's breakthrough scientific discoveries were simply too expensive for Australian companies to take through the enormous costs of development, testing and market entry. These were sold off-shore.

Australia did not gain the full benefits of the online world. Australian regulators and policy makers were slow to realise the potential of the new online era. Australia switched to digital TV as late as 2008, but Australian governments were slow to update old technical standards and regulations and imposed new, restricted regulation in privacy and security which proved onerous to business. Consequently, the signals were that Australia was not the best place to do online business.

Australian companies were slow to capitalise on fresh opportunities created in the new economy: for service businesses in Asia; for new online business, new intermediaries, and new industry structures; to meet the needs of its own local leading edge consumers of IT and communications technologies; to add value to resources and manufacturing industries to develop non-price competitive advantages; to provide a transport hub into Asia, capitalising on logistics and transport support prerequisites for e-commerce; and to pursue new business emerging from the growing awareness of environmental management and repair.

### ***Skills for the new economy***

The skills and acumen required to 'make it' in the knowledge economy remained difficult to acquire. The critical skills shortage that had developed in the latter part of the 1990s was exacerbated by Australia's failure to effectively re-skill the many blue collar and rural workers who had been downsized or restructured out of the job market or whose skills set did not match the needs of new growth enterprises and the online economy.

Perhaps the most serious failure was Australia's lack of investment in maintaining a world class education and training system responsive to the demands and challenges of a globalised, connected world.

Australia needed to design an approach to education which did more than provide the skills so much in demand in the knowledge economy. It was not just technical knowledge, facts and figures that were needed — by 2005 this information was being provided by computers faster and more reliably than it was possible for any human to do. Australians needed training in how to *think*, how to *identify* and *solve* problems, how to be *creative* and generate ideas, how to think *systematically* and into the *future*, and how to bridge research and business cultures to commercialise Australian discoveries.

### ***Creating new enterprises***

Continued spending cuts in research and development funding for both public and private sectors adversely impacted on the ability of Australian companies to compete and develop unique technologies, products and services. Success in exporting relies upon unique products suited to the culture and values of the marketplace, which can be protected from rapid copying by strong global brands and unique or protectable technologies. The investment to create those products simply wasn't made. The universities had no funds to take the sort of initiative seen around the world and exemplified by Cambridge Technology Park in the UK. Private sector companies either had no culture of innovation, or were owned elsewhere and kept innovation close to their overseas corporate head offices.

It was often lamented that Australia did not have a strong enterprise culture. Many major companies in Australia became branch offices of overseas firms and key decisions and investments were not made here.

### Implications for business in Australia

In 2015 there are still successful companies in Australia. They are here because of the passion and drive of their founders to create Australian business and to create jobs for young Australians. Their competitive advantages take many forms:

- supplying products to meet conditions peculiar to Australia and some small overseas markets, for example some irrigation components;
- technology-based service businesses supporting overseas hardware and specific Australian systems and software applications;
- providing product development and manufacturing businesses as part of international companies, where the Australian location specialises in low volume, short run, flexible manufacturing; and
- running technology-based businesses based upon an initial discovery which is able to provide returns over a lengthy period. These companies tend to relocate overseas when the next generation technology or product needs to be developed and financed.

The wine industry has continued to be successful in the face of stiff international competition. Its success is attributed to cooperation between small growers and an understanding of boutique branding and marketing internationally.

The big companies failed to make the transition to the new world — they did not see the new competitive game and failed in the face of competition from new entrants, many of which were overseas companies that redefined the bases of competition. Banks, retailers, insurance companies, health funds, government enterprises of all kinds and traditional service companies — lawyers, financial advisors — were all vulnerable and ultimately did not secure the level of growth needed to thrive.

There was a hollowing out of Australia's traditional primary and secondary industries, with much taken over by multinationals or located offshore.

Inbound tourism has been Australia's success story. As the populations of many countries aged and Australia continued to offer an attractive currency exchange rate, it became a popular destination for the not so wealthy but time-rich traveller. Four wheel drive touring and camping holidays became very popular and companies offering backpacker or outdoor adventure holidays became successful businesses. Aged Americans and Japanese were able to 'winter' in Australia, often more cheaply than they could live at home.

The private health, beauty and fitness industries developed to support these aged tourists, providing services and charging prices well out of the reach of most Australians. Some say Australia has become not the service nation, but the servile nation.

The bottom line is whether, in pursuing a 'she'll be right' approach, Australia could pay its way in the world. Australia's industrial structure was more a reflection of the late 19th century than the new millennium. Many doubted that Australia could create the value and generate the wealth it needed as a modern economy in a globalising, interconnected world by relying on its traditional but lower valued resource endowments, its isolated successes in new technology and its growing services sectors. ❖



# Green is Gold

In this scenario, Australia finds itself caught up in a dramatic story about the imperative to protect the natural environment in a globalised world which has visibly stepped up the demand for energy before discovering, either through new technology or new processes applied to current technology, paths to sustainability. Australia shares global turmoil in the years before the successor to the Kyoto Agreement, the Bangalore Global Treaty, is enforced in 2009. It then finds itself in the fortunate position of being able to thrive as one of the leading innovators of global environmental management.

## How Green became Gold

*Press Release, 15 September 2015*

To: All Media  
 From: NBT Public Relations ('Nothing But the Truth')  
 On Behalf of: Eco Breweries – *The beer you drink when you're saving the planet*  
 On the occasion of: Eco Beer's 7th anniversary, the launch of a new product range and further initiatives to restore the environment.

Background briefing:

### ***Who put the fun back into being green?***

The legend of Eco Beer — the world's largest selling brand — begins with the intersection of two crises: one personal, the other environmental.

Australian business pretty much ignored the increasing evidence of planetary degradation and global warming until Sydney was struck by the notorious killer hailstorm in 2004 — yet another sign that global warming led to wild weather. Dwarfing an 'early warning' hail event five years earlier, the Death Storm of that remarkable summer resulted in 1700 serious injuries and 327 deaths. Scores of people were cut down while running for shelter from the beaches, others were pounded to death as they sat soaking and gridlocked in their window-shattered vehicles.

Property damage was vast. The ruins of the Sydney Opera House today remain a permanent testimony to the 'storm that changed the future'.

It didn't end there of course. Several other events combined in a short period to shatter the complacency of the commercial world. The bleaching of the Great Barrier

Reef continued to accelerate; childhood asthma rates soared; Sydney's water quality deteriorated; and 'mad cow disease' wiped out the entire beef industry, putting an end to the march of McDonald's.

Added to these local disasters was global climatic disarray. News, images and information pulsed through the web. Much of it was dire, but some of it contained the seeds of solutions, the ways and means of restoring the ecosystem. The latest biotech breakthroughs spread fast, while ideas for sustainable business increased and multiplied. The world market for restoration finally took off.

Enter Zach Reinhardt, a former board member of one of Australia's biggest energy and resources companies, who had for a number of years been undergoing a series of crises himself.

Following a series of environmental disasters caused by his company's mismanagement and abuse of natural resources, Zach resigned from the board, overcome by a sense of shame. 'Even my kids hated my guts,' he recalled later, after emerging from a long spell of clinical depression.

Originally from a famous winegrowing family in the Barossa Valley, with an MBA from Harvard, Zach took a few years off from corporate life to study ways in which business could re-invent itself for the 21st century. Impressed as he was by the dawning of triple bottom line accountancy and revised mission statements of corporations such as Shell Oil and Interface Carpets, Zach wanted to go further. Much further.

'I'm not interested in merely minimising the bad effects,' he told his children. 'I want to enhance the ecosystem ... Plus, I want to have fun.'

One night, cruising the web, Zach came across the description of a factory in Namibia boasting 'zero emissions'. It changed his life.

'Eureka! I've found it!' he enthused to his family, describing the revolutionary system he had found on the web and which had largely been designed on the web. It was a brewery. But it was much more than that. It was a brewery which converted all of its wastes into new products. Instead of feeding the four tonnes of spent grain a day to cattle which then caused excess methane emissions, it was used for the cultivation of mushrooms (traditionally an imported luxury crop). This not only restored the grain's pH balance, but provided an extra source of food. The grain was insinuated with worms, on which flocks of free range chickens fed — providing fresh eggs and white meat — and the refuse was put in a digester and converted to energy to power the brewery.

And what of the water, the most wasteful aspect of brewing beer? This too was turned into a resource. Its pH balance was restored by channelling the alkaline outflow into pools for growing spirulina, a protein supplement. Another product and additional income. The purified water was released into a network of ponds — a thriving fish farm, producing 15 tons of fish per hectare per year.

The more Zach learned about zero emission systems, the more excited he became.

And yet raising the capital proved a grind. 'We've already got good beer in Australia,' he was told, 'and it's not as if we're third world desperados.'

Venture capitalists changed their tune after the the Death Storm, which revealed the first chink in the armour of self confidence. This was followed by severe water

shortages, which converted Zach's 'loony obsession' into a welcome solution. By the time Bob Brown's Environmental Coalition was up and running in 2007, the first crates of Eco Beer were hitting the supermarkets.

Zach Reinhardt had gone further than the prototype which inspired him. Not only had several new products been introduced into the manufacturing cycle, but the sorghum grain was fully organic and pesticide free (as attested by independent inspectors). The launch slogan for Eco Beer was crude but effective: 'Get pissed, save the world'.

This was followed by Eco Draught — with the slogan 'Let's pull together' — a vitamin enriched organic drop that was a huge hit with the public, and became the flagship of the export push.

Zach soon had the time and the money to experiment with boutique brewing concepts, such as a low alcohol hemp ale, which appealed to ageing baby boomers. Another line was infused with safe smart drugs, or 'nutriceuticals', and it soon replaced Prozac as the mood elevator of choice. (Last year's top drop was VB — Viagra Bitter.)

Today, on Eco Beer's 7th birthday, Zach announces his company's purchase of all of Australia's remaining natural habitats still under threat and the recruitment of a thousand previously unemployed youths to act as bush carers. Once restored, all the lands will be gifted to the nation.

Eco Beer is also pleased to report on the success of two spin-offs from the operation of the Cairns brewery:

(1) annual exports to Asia of seedlings from Rainforest Regeneration Inc, which have topped the \$50 million mark; and

(2) the Reef Revivers Project, which has concluded restoration of the Great Barrier Reef — a complete success — and is soon setting off to stop the bleaching of coral reefs in Hawaii.

Despite all the achievements of Eco Beer to date, all its profits, all its awards for contributions to sustainability and social equity, Zach Reinhardt has never forgotten his original pledge — to 'have fun'. From noon to midnight on Melbourne Cup day, 2015, Eco Beer will be available free throughout the country (limit of two dozen per adult).

## The way we were

We all knew in 1999 that the environment and its management had to be included in our deliberations about the future of business in Australia. It seemed improbable then that global survival would be based on the notion that what was good for Australia was good for the world — or, for that matter, that what was good for India or China might be good for Australia.

National self-interest clearly had to take into account the growing number of scientific observations about fluctuations in climate change, the porous ozone layer, air and water pollution and land degradation. For although there was sometimes sharp disagreement about the interpretation and significance of environmental science, the growing sense of the connectedness between these phenomena meant that they could not be ignored when surveying the environmental landscape.

Nor could Australia rely on optimism about technological change as a reason for ignoring all the disturbing data about the increasing rate of depletion of natural resources or the impact of soaring demand for carbon-based energy on a fragile global ecology.

Awareness of the health of the environment had increased dramatically in the last decade of the 20th century. All sections of the community readily accepted the need for national and international environmental standards. Environmental management was growing rapidly as a profession and a practice, but it had only a minimal interface with business.

The realisation that the Australian economy was an integral and uncertain part of the ecosystem was incorporated in the rhetoric of some political leaders, but was hardly evident in the decisions made about business or even about the environment itself.

The concept of the 'triple bottom line'<sup>1</sup> didn't enter management thinking until 1998 at the earliest, so it is hardly surprising that neither business nor government leaders anticipated or planned for the impacts of environmental crises and changes on business operations and community expectations.

At the turn of the century, Australia was celebrating renewed economic strength (its performance outshone that of all other OECD countries in 2000) and its global focus as the host of the Millennium Olympic Games. Yet these achievements, and the optimism which surrounded the globalising world economy, masked deep seated problems for the Australian environment and therefore the business economy.

Agriculture in Australia had both flourished and failed, blessed and cursed by a flat, eroded, generally dry landscape and a highly variable climate. The triumphs and traumas of more than 200 years of European style farming had scarred and changed the environment. The 40 year decline of Australian agriculture continued relentlessly, exacerbated by world gluts in wool and US trade policies designed to suit its own primary producers.

Australia's mining industry was enduring a sustained period of lowering world prices. From gold to copper, from coal to gas, the theme was 'down ... down ... down'. The declining return on mining investments reduced Australia's capacity to counter some of the excesses of economic exploitation, leaving lasting testimonies to the irreversible change generated by such exploration.

Tourism was emerging as the economic boom industry, as the Australian environment offered opportunities to experience unspoilt natural wonders and unique and ancient landscapes, flora and

1 The precursor to GAS (Global Accounting Standard) 3001, *Business absorption of social and environmental costs* (2009).

fauna. However, this industry was eco-dependent and brought with it the potential for damaging the very source of its income. Business opportunities and success hung by a fine thread of competent and responsible management of the vital resource — an environment Australians could view with pride.

Concerns about the progress of tourism, mining and agriculture had spawned the rise of community interest groups focusing on the environment, but there was little cohesion in their activities and not much attention was given to them by business. And global pressure on Australia was sporadic too, despite the Kyoto Agreement of 1997 to limit greenhouse gas emissions.

Kyoto was a failure. The Agreement required a fundamental reshaping of business goals and ethics, of governments' policies and fiscal management, and consumer preferences and behaviour — in other words, a fundamental change in the mindset of the global community. Various countries signed the Agreement, but none showed any evidence of any political will to move towards the Agreement's objectives. Instead they continued to protect their own interests, so that disagreements and conflicts were inevitable.

It was thus that we came into the 21st century. Successful, optimistic ... and yet towing in our wake, in the undercurrent of our business and social lives, the ingredients for and causes of profound change.

Drivers of change

### **1. Price of energy**

At the turn of the century competitive forces drive down prices. To increase their market share, suppliers dump electricity below cost. To protect margins, suppliers cut compliance expenditure. A price-led growth in demand creates 'brown outs' and other supply hiccups, causing consumers to lose confidence. Cheap energy and the lack of emission controls focus external attention on Australia. From 2002 to 2003, political activity forces energy prices to rise to international parity. By 2010 prices settle at 25 per cent above 2003 prices and appear to reflect a sustainable path by 2013 as a variety of new technologies enter the market.

### **2. Shift from coal to gas; new uses of old technologies**

Changes in energy generation technology have some momentum by 2000. The lack of popularity of electricity suppliers pressures the switch from coal to gas, a move supported by an Australian Government now under pressure to meet its Kyoto targets. Natural gas is being used wherever possible: by 2009, about 35 per cent of energy generation has transferred from coal to gas.

As environment values become a factor in all consumer and technological choices involving energy, gas becomes the preferred fuel by 2005 but supply is not able to meet demand. Even transportation—the one market that had not gone electric by the turn of the century—is affected, and in 2004 the automotive industry finally produces electric vehicles. The adoption of electricity, fuel cells and

hydrogen leads to a technological revolution in transportation between 2010–2015. The long hoped-for hydrogen economy looks as if it will take off before 2020.

### **3. Adoption of new technologies**

The relationship between technological initiatives and consumers' sense of security is an area of great uncertainty—as evidenced by the resistance to electric cars discussed above. While energy prices are very low, the incentives to innovate are also low; but as prices enter a period of sustained increase from 2002 through to 2009, commercial substitution of the new for the old becomes more feasible. R&D in biotechnology increases after 2008 leading to an accelerated transfer not only from old to new but from 'dirty' to 'clean' energy.

### **4. Government regulation**

Government intervention in matters to do with the environment is primarily reactive in 2000, despite the activities of non-government organisations (NGOs) and consumers in raising consciousness of the issues. In 2002, the Coalition Government introduces a progressive carbon tax to suppress demand and raise the efficiency of, and funds for, environmental management. Revenues from emissions trading decrease as a result of improved efficiency, and the carbon tax is phased out in 2005. The Bangalore Treaty on global environmental citizenship is signed in 2009. In the early 2000s government initiatives are sporadic on issues such as recycling, public transport and public health, but things 'hot up' in 2004 when the Federal Government backs the new electric car by adopting the Selective Electronic Road Pricing Scheme which impacts on the price of running fossil fuel Falcons and the like. In 2007 the Government implements an electors' demand to switch resources to public transport in a big way.

Public health officials campaign for action on pollution from 2004 as air quality, particularly in Sydney, declines measurably year after year. Traffic gridlock worsens, and the increased levels of pollution produced by the massive above ground traffic distribution systems built in the late 1990s lead to ad hoc government regulation. Australia is not alone in its growing awareness of these issues. Concerns about traffic, health and sustainability lead the UN General Assembly to establish an Environment Security Council and the World Energy Organisation in 2006. These bodies are established to handle the global disputes being generated by the Kyoto Agreement of 1997.

### **5. Activities of non-government organisations**

The 'green' movements in the last quarter of the 20th century move inexorably from the radical flanks to the conservative centre of public debate. The Australian public is increasingly drawn towards the more 'ethical' NGOs and green parties. By 2000 the environmental NGOs are an integral part of public life, with representatives in all levels of government, using their numbers to bargain for greater controls to reduce environmental degradation.

The NGOs both catalyse and coordinate community unrest about the lack of environmental sensitivity in government decision making. The unrest feeds on itself and becomes a major force shaping Australia's political life by 2008.

## **What happened in Australia**

Australia's dream to achieve a world-competitive environment for Australian business was derailed by the coincidental coming together of the drivers for change, elaborated above. While each driver in itself was

a manageable phenomenon by Australian business operations and government policy, together they shattered the confidence Australians had in their political and business leaders' capacity to sustain their environment.

The saga of the last 15 years as Australia moved from unheeded, even irresponsible environmental management to safe environmental technologies is illustrated in the timeline of major events (below p 50) in response to energy generation, fossil fuel management and political reactions.

The fear induced by unexpected and unexplained changes in these environmental forces created a groundswell in the population that transferred the focus of business from survival through optimising bottom-line outcomes for shareholders to survival through engaging in transparent practices that did not further threaten the environment.

A critical confluence of forces occurred between 2002 and 2008 when the following changes in various environment-influencing forces undermined the public's confidence:

- Following the under supply of electricity at the turn of the century, there is an increase in energy costs to world averages—designed to rein in rampant use of fossil fuels and create an economic basis for alternative technologies. These were poorly explained to the public who saw the increases as resulting purely from the greed of the power companies, which were already damaging the environment.
- There was continual marginalisation of alternative energy generation processes on the grounds they threatened profits and market share.
- Aggressive reaction by government and business to achieving lower greenhouse gas emission levels followed WHO condemnation of Australian cities' air quality.
- Governments failed to reach widely publicised environment management goals.
- There was a sharp increase in pollution-related illnesses.
- There were increased fear campaigns by environmental non-government organisations.
- A series of extreme weather disasters indicated major instability in climatic patterns.

The resultant upheaval in Australian political life led to a new era in Australia's approach to business and environmental management. Increasingly, enterprises developed policies that reflected a will to work with the environment rather than in opposition to it.

With Australia being able to promote a green image to the rest of the world and its businesses achieving a high rate of international environmental accreditation, it becomes a preferred place for many corporations seeking to further their green image in the international market place.

After many turbulent years Australia has the opportunity to realise green really is gold.

## TIMELINE

Year	Event
2000	Price of energy driven down by competition Demand for electricity exceeds supply capacity
2001	Significant increase in 'greenhouse' emissions across industries Transfer of energy generation from coal to gas accelerates
2002	Australian Government introduces a carbon tax Increase in electricity generation innovation
2003	Australian energy prices reach international parity
2004	Air quality in Sydney declines to a point under minimum WHO standards Electric vehicles are supported by some government and corporate groups for their fleet needs Selective Electronic Road Pricing Scheme significantly reduces the use of fossil fuels in vehicles
2005	Carbon tax revoked Gas becomes the preferred fuel for all energy requirements but is only available for 20 per cent of the market
2006	Formation of United Nations Environment Security Council and World Energy Organisation Australia's mineral processing industry almost totally moved off-shore
2007	Environmental Coalition (political party) established to contest 2008 federal election Riots in all major population centres as public protests over government's failure to arrest environmental degradation Major increase in expenditure on new mass transport systems
2008	Environmental Coalition wins government R&D in biotechnology application to environmental management significantly increases as prices on fossil fuels make alternatives commercially viable
2009	35 per cent of energy generation is from natural gas operations Bangalore Treaty signed to enforce 1997 Kyoto Agreement
2010	Energy prices stabilise 25 per cent above 2003 rates
2011	Environmental Coalition retains power in federal election
2012	Electric vehicles make up the majority of new car sales and become the dominant mode in the transport system
2013	A survey of Australian commercial enterprises shows that those with a long term commitment to implementing environmentally safe technologies achieve better and more consistent bottom line results
2014	Australian leads the world in the percentage of its business enterprises that have achieved international environmental accreditation from the Environment Security Council
2015	Pilot projects for the commercial use of hydrogen as the basis for energy production are instigated with the expectation of its wide introduction within five years

## Implications for business in Australia

The response of Australian businesses to four issues in the late 1990s and early 2000s significantly influenced their performance beyond 2004. These issues were:

- a proactive stance on environmental protection;
- an active engagement with consumer interest groups and other stakeholders beyond shareholders;
- a strategic position that enabled rapid transfer from the 'black' technologies to the emerging green technologies; and
- a clear, transparent line in their annual budget and financial statements that demonstrated a dollar commitment to environmental responsibility.

The overt sign of a commitment to environmental protection by a business was the effort it made to voluntarily incorporate international standards for environmental management into its day to day operations. Some 2400 companies in all states and regions had become certified under the ISO 14000 Series guidelines for environmental management by 2002. Disappointingly, many of the complying companies were branches of multinationals, as international companies more readily recognised the competitive advantage in being known to be proactive. In general, Australian companies continued to wait for direct and compulsory regulations to be devised and hence were poorly regarded by many consumers when the 2008 crisis occurred.

The experience with the second issue of consumer and stakeholder involvement was similarly uneven — although in this case it was smaller, community-orientated companies that had the most success. Business actively seeking consensus with the community required a level of advocacy quite different from the corporate affairs department's communication with central governments.

Factories that developed neighbourhood liaison programs typified the companies that reaped the benefit after 2008 of being sensitive to the fears of the Australian public. It was reported in 2006 that over 7000 company-neighbourhood groups were regularly meeting and influencing strategic decisions concerning the environment.

However, while the two issues above were significant in affecting the attitude of consumers to companies, it was the capacity of a business to quickly adopt the new green technology that had the greatest impact on the balance sheet. It is now apparent that the companies that established intelligence networks to keep abreast with green technology and formulated strategic changeover plans, including training staff to manage major doses of new knowledge on short notice, were better off. These companies were able to maintain an even keel through the period of carbon taxes and other penalties and then bounce ahead, assisted by their receipt of incentives to be 'greener'.

It is also important to note that it is these companies that since 2010 have benefited from the international perception that Australia was fundamentally

greener and cleaner than most other places in the world. For these enterprises the green really did turn to gold.

From newspaper records of the early 2000s, it is clear that the rhetoric of many companies which claimed green credentials was not to be believed, making it difficult for the people of Australia to distinguish fact from fiction. As a result, the unambiguous expenditure of company resources to exchange polluting activities for non-polluting behaviour became the benchmark of truth.

Some 1500 companies included transparent and verifiable information of their environmental expenditure in their 2001 annual reports, and this number had quadrupled three years later. When by 2009, profits derived from polluting activities became unsustainable in a hostile consumer environment and the rest of Australia's companies moved to adopt fundamental environmental management principles, they found themselves at a huge disadvantage to the early adaptors.

However, while there were substantial differences in the recovery time for companies from the environment generated crisis, by 2015 Australia has been able to capitalise on its low population density, temperate climate and clean image to attract many international consortiums looking for a HQ image that is environmentally positive.

In 2015 the future looks bright for Australia's green business enterprises. ❖