

# [Business environment: australia](https://assignbuster.com/business-environment-australia/)

[Economics](https://assignbuster.com/essay-subjects/economics/), [Macroeconomics](https://assignbuster.com/essay-subjects/economics/macroeconomics/)

Business Environment: Australia Euromonitor International 09 March 2012 Australia is a stable and fast growing economy. It ranks highly in the global competitiveness index 2012. FDI inflows and outflows are both rising. Information and communications technology (ICT) penetration is high and its infrastructure is solid. Total taxes are high but do not take long to pay. Skills shortages and an ageing population remain an issue, though unemployment is low and per capita consumer expenditure is growing. SUMMARY Australia ranked highly in the Ease of Doing Business Report 2012 (‘ Doing Business’), at 15th out of 183 countries. Total GDP growth in 2010-11 was 1. 8% in real terms. Since 2007 when Australia had a budget surplus, the government has accrued a budget deficit totaling A$56. 9 billion (US$55. 5 billion) in 2011, which amounted to 3. 9% of its total GDP. Both FDI inflows and outflows increased in 2010. Australia has a well-developed infrastructure, ranking 24th out of 142 countries for its infrastructure in the Global Competiveness Index (GCI) 2011. The total tax rate as a percentage of total company profits was high at 47. 7%, compared to the OECD average of 42. 7% according to Doing Business 2012. Australia has a high degree of information and computer technology usage, ranking 17th out of 138 countries in the Networked Readiness Index (NRI) in 2011. Total expenditure on Research & Development (R&D) as a percentage of GDP in 2011 was quite high, at 2. 3% of GDP. Australia has an educated population: 99. 9% of adults (those aged 15+) were literate in 2011, but suffers from skills shortages. The total unemployment rate was low, at 5. 1% in 2011. Wage costs are high in comparison to geographically proximate countries: the average hourly wage in manufacturing in 2011 in Australia was US$31. 6 compared to the OECD average of US$20. 4. Australia saw per capita consumer expenditure rise from A$32, 871 (US$30, 153) in 2010 to A$34, 052 (US$34, 880) in 2011. Its population is ageing which could limit consumer and labour market growth in the future; in 2011 pensioners (those aged 65+ in 2011) comprised 14. 4% of the population, up from 14. 1% in 2006. OPERATING ENVIRONMENT Australia ranks higher than the OECD average in the Doing Business Report 2012 Australia ranked very highly in the Corruption Perceptions Index 2010, at eighth out of 178 countries. Australia ranked highly in the Ease of Doing Business Report 2012 (‘ Doing Business 2012’), at 15th out of 183 countries. This was a drop of four places from 2011, when its ranking was 11th out of 183 countries. In Doing Business 2012, Australia scored lower than its neighbour New Zealand, which ranked in third place. However, it scored higher than the average ranking of OECD countries (29). Australia’s slightly lower ranking in Doing Business 2012 compared to 2011 was due to it scoring slightly worse in seven out of the 10 components of its overall Doing Business ranking. Its rankings for protecting investors and resolving insolvency dropped the most between Doing Business 2011 and 2012, with both falling by five places. Australia stands out as performing well for starting a business: it ranked second out of 183 countries in Doing Business 2012. Part of the reason for its high score was that according to Doing Business 2012, an average of just 2 days were needed to register a business in Australia compared to the OECD average of 13. 0 days. Australia’s poorest ranking for Doing Business 2012 was for protecting investors (65th place), in stark contrast to New Zealand (first place). Australia’s poor ranking in this area was primarily due to a lack of transparency as companies are under fewer legal obligations to publically disclose their transactions, in comparison with other economies. Australia weathered the global economic crisis better than many other economies, and business confidence in the country in 2012 is high. It has a stable political environment, and is also rich in natural resources, which are in strong demand from China and other Asian countries. Australia’s total GDP grew at a slower rate in 2010-11 (1. 8% in real terms) than 2009-10 when it grew at 2. 7% in real terms. The reduced growth was partially due to the flooding in Australia in 2011. Inflation in the country was also low, at 3. 6% in 2011, down from 4. 4% in 2008. However the government had a budget deficit of A$56. 9 billion (US$55. 5 billion) in 2011, which amounted to 3. 9% of its total GDP. It has accrued this since 2007 when it had a budget surplus of A$14. 5 billion (US$12. 1 billion), which was 1. 3% of total GDP. The deficit occurred following the global economic downturn of 2008-2009, natural disasters and lower tax revenues. Chart 1 Ease of Doing Business Ranking 2011-2012 Ranking out of 183 countries Source: Notes: Doing Business, World Bank (1) Regulations in Doing Business 2012 are measured from June 2010 until May 2011. The data for all sets of indicators in Doing Business 2012 are from June 2010 until June 2011 (except for paying taxes data which refers to January—December 2010). (2) Rankings are based on data sets across 183 countries. (3) Doing Business presents quantitative indicators on business regulations and the protection of property rights that can be compared across 183 economies. A high ranking means the regulatory environment is conducive to the operation of business. The ranking for Australia in the Global Competiveness Index (GCI) 2012 was 20th out of 142 countries, roughly in line with other comparable markets such as New Zealand (25th place). Australia’s score is slightly worse than its 2011 ranking (16th place out of 139 countries). Corruption is not a major problem at all in Australia. It ranked very highly in the Corruption Perceptions Index 2011, at eighth out of 183 countries. This was not quite as high as neighbouring New Zealand, which ranked in joint first place alongside Denmark and Singapore, but was a better score than many other OECD economies such as the UK (16th) and the USA (24th). Chart 2 Global Competitiveness Index in Selected Countries 2011-2012 Ranking out of 142 countries Source: Note: World Economic Forum The Global Competitiveness Index measures the microeconomic and macroeconomic foundations of national competitiveness, taking into account 12 subjects - Institutions, Infrastructure, Macroeconomic stability, Health and primary education, Higher education and training, Goods market efficiency, Labour market efficiency, Financial market sophistication, Technological readiness, Market size, Business sophistication and Innovation. GOVERNMENT REGULATION AND TRADING ACROSS BORDERS FDI levels in Australia rose in 2010 and negotiations for free trade agreements with many major economies are underway FDI inflows increased in 2010 to A$35. 3 billion (US$32. 4 billion), up from A$33. 0 billion (US$25. 7 billion) in 2009. Australia scored rather poorly (65th place out of 183 countries) in Doing Business 2012 for its protection of investors, primarily because its laws only provide for restricted ability of company shareholders to bring legal action against directors who have acted negligently in running a company. Despite this, Australia’s investment laws are transparent and predominantly treat foreign and domestic businesses equally. The government encourages foreign direct investment (FDI) by offering incentives such as tax relief and grants for certain industries such as renewable energy. It has an independent government-created body called Australian Trade Commission (Austrade) to help facilitate FDI in the country by advising would-be investors. FDI inflows increased in 2010 to A$35. 3 billion (US$32. 4 billion), up from A$33. 0 billion (US$25. 7 billion) in 2009, while FDI outflows also rose to A$28. 7 billion (US$26. 3 billion) in 2010, up from A$20. 7 billion (US$16. 2 billion) in 2009. In 2010 both FDI inflows and outflows remained below 2008 levels however, as Australia was not completely immune to the global recession. FDI intensity in Australia in 2010 was 2. 6% of total GDP, unchanged from 2009 yet lower than 4. 5% of total GDP in 2008. Australia has a well-developed infrastructure, which is conducive to doing business in the country. It ranked 24th out of 142 countries for its infrastructure in the GCI 2012. The government is concerned that improvements to its infrastructure are needed for it to become more competitive. As a result it is investing a total of A$8. 5 billion (US$9. 1 billion) in infrastructural development between 2008-14. Projects covered by the investment include developing the public transport systems in some of its major cities, and the National Ports Strategy to improve its ports. Numerous free trade agreements are in place with other countries through the Association of Southeast Asian Nations (ASEAN). New Zealand, the USA, Chile and Singapore are among the countries with which Australia has existing free trade agreements in 2012. Further agreements with countries such as China and India are currently under negotiation, in order to harness the growing demand for Australia’s goods and raw materials from these markets. According to the Doing Business 2012 report, the average time taken to export was 9. 0 days, lower than the OECD average of 10. 0 days. The time taken to import was 8. 0 days compared with the OECD average of 11. 0 days. An average of 6. 0 documents were needed to export and 5. 0 to import. The average cost to import a container stood at US$1, 119, higher than the OECD average of US$1, 085 while the cost to export a container stood at US$1, 060 compared to the OECD average of US$1, 032. Chart 3 FDI Intensity and FDI Flows 2005-2010 US$ billion/% of GDP Source: Note: Euromonitor International from International Monetary Fund (IMF), International Financial Statistics and World Economic Outlook/UN/UNCTAD/national statistics FDI refers to foreign direct investment. The current year for Passport FDI data is 2010. TAX ENVIRONMENT Tax breaks are available for the purchase of new assets for qualifying companies Total tax rates as a percentage of company profits were higher in Australia (47. 7%) than the OECD average (42. 7%) according to Doing Business 2012. According to the Doing Business 2012 report, the corporation tax rate was 30. 0%, unchanged from 2009. In order to encourage entrepreneurship, the government offers tax breaks to some companies for the purchase of qualifying assets, if they meet certain criteria. According to the Doing Business report 2012, its total tax rate as a percentage of total company profits was 47. 7%, higher than the OECD average of 42. 7%. Labour tax was lower however, at 20. 4% of total profits compared to the OECD average of 24. 0%, according to the report. VAT in Australia was 10. 0%. The total time taken for an Australian business to prepare, file and pay its taxes and contributions was 109 hours per year according to the Doing Business Report 2012, lower than the 186 hours average in OECD countries. The number of payments needed to pay taxes in Australia was 11. 0 per year, also slightly lower than the 13. 0 average for OECD countries. Tax evasion is a problem in Australia, and the government set aside A$337. 5 million in the 201011 budget in order to tackle the issue. Chart 4 Total Tax Rate and Number of Hours to Prepare, File Returns and Pay Taxes in Selected Countries 2011 % of total profits/hours per year Source: Notes: Doing Business, World Bank (1) Total tax rate measures the amount of taxes payable by the business in the second year of operation, expressed as a share of commercial profits. The taxes included are profit or corporate income tax, social security contributions and other labour taxes paid by the employer, property taxes, turnover taxes and other small taxes (such as municipal fees and vehicle and fuel taxes). (2) Paying taxes data which refers to January—December 2010 TECHNOLOGICAL INNOVATION The number of Broadband Internet subscriptions is rapidly rising in Australia Government expenditure on Research & Development was 34. 7% of all R&D expenditure in 2011, rather small in comparison to expenditure from business enterprise funds, which accounted for 61. 4%. There was a high degree of Information and communications technology (ICT) usage in Australia in 2011. The number of Internet users rose from 13. 6 million in 2006 (65. 8% of the total population) to 17. 0 million by 2011 (76. 1% of the total population.) Australia’s geographical broadband coverage is also expanding, which is helpful for business communication in such a vast country. Australia has a skills shortage of IT specialists in 2012 according to trade sources. Australia ranked 17th out of 138 countries in the Networked Readiness Index (NRI) in 2011. The NRI measures the propensity for countries to exploit the opportunities offered by information and communications technology. Its score is in line with other nearby OECD economies such as New Zealand (18th place) and Japan (19th). Total expenditure on Research & Development (R&D) in 2011 was A$33. 5 billion (US$34. 3 billion), or 2. 3% of GDP, a figure that has risen since 2006 when it was 2. 1%. Business enterprise funds had the biggest contribution towards total expenditure on R&D, accounting for 61. 4% in 2011, while 34. 7% came from government funds. R&D as a percentage of total GDP in 2011 in Australia was slightly higher than some other OECD countries such as the UK (1. 8%) and New Zealand (1. 2%). R&D is important for Australia to remain competitive because there is a direct correlation between R&D expenditure, innovation and company growth as well as GDP growth. The Australian government encourages R&D development by allowing businesses to deduct 125% of eligible expenditure on R&D from their corporate tax returns. Chart 5 Total Expenditure on R&D by Category 2006-2011 % on total expenditure on R&D Source: Note: Euromonitor International from EUROSTAT, UNESCO R&D refers to research and development. LABOUR AND EDUCATION Rising numbers of the population are in higher education The average hourly wage in manufacturing in 2011 in Australia was US$31. 6, very high compared with the OECD average hourly manufacturing wage of US$20. 8. Australia has an educated population: 99. 9% of adults (those aged 15+) were literate in 2011, a figure that has remained unchanged since 2006. Government expenditure on education was A$73. 5 billion in 2011 (US$ 75. 3 billion) which equated to 5. 1% of total GDP. The actual expenditure by the government on education in 2011 was significantly higher than in 2006, when it stood at A$52. 8 billion (US$39. 8 billion) although the percentage of total GDP accounted for by government expenditure on education was unchanged, at 5. 1%. In 2011 a total of 1. 3 million students were in higher education in Australia (5. 7% of the total population), a higher percentage than 2006 (5. 0%), meaning that the ratio of population in education is rising. In 2011, the highest number of graduates was in unspecified subjects with 256, 490 graduates, while the lowest number was graduates in agriculture with 1, 960. The number of agriculture students rose every year from 2008 when it stood at 1, 859 because the contribution of agriculture to total GDP is rising slightly, from 2. 4% in 2008 to 2. 7% by 2011. Chart 6 Number of Higher Education Students and Adult Literacy Rate 2006-2011 ‘ 000 / % of population aged 15+ Source: Euromonitor International from UNESCO/national statistics. Despite the rising proportion of the population in higher education, Australia suffers from skills shortages in business roles, engineering, trades people, chefs and hairdressers. This is because the labour force is ageing and the population is not rising fast enough to meet the skills needed for its growing business sector. To compound the issue, many of its young graduates also leave to work in other countries such as the UK. In order to address the problem, the government implemented a scheme called the National Skills Shortage Strategy. The strategy is aimed at identifying where the most chronic skills shortages lie, and helping employers to provide training to meet these needs. Skilled foreign workers are also granted working visas in order to fill the shortages. The total economically active population in Australia in 2011 was 12. 0 million, while the total unemployment rate was 5. 1%. This was only slightly higher than the pre-global recession year of 2007 when it was 4. 4%, and still far lower than many other OECD markets which have seen their unemployment rates rise rapidly between 2008 and 2011 due to the global economic downturn. In common with many other OECD economies however, the highest levels of unemployment in 2011 were among the young (those aged 15-19), owing to a growing reluctance among employers to hire inexperienced staff. In 2011 a total of 134, 900 15-19 year olds were unemployed, equating to 21. 9% of the total unemployed population. The largest proportion of the employed population were employed in Community, Education, Health, Social, Personal Services, Public Admin and Defence sector (29. 3%) in 2011. The sector that saw the biggest rise from 2006-2011 in the proportion of the population employed was construction, which rose from 9. 0% of the employed population in 2006 to 10. 0% by 2011, a result of a boom in Australia’s resources industries such as oil and gas processing and the investment in infrastructure. The sector with the biggest decline in the proportion of the population employed in it from 2006-2011 was in manufacturing, falling from 10. 4% in 2006 down to 9. 4% by 2011. This was a result of high wage costs in manufacturing in Australia. The average hourly wage in manufacturing in 2011 in Australia was US$31. 6, higher than the OECD average of US$20. 8 per hour. Australia’s average hourly wage was US$28. 7 in 2011, which was also higher than the US$21. 4 OECD average wage, and far higher than any Asian countries. Like European countries, Australia could face increasing competition from lower cost emerging markets in Asia. Despite its high wage costs, Australia has very high labour productivity rates of US$119, 698 per person employed in 2011, compared with some other countries, such as New Zealand (US$69, 228). Labour taxes in Australia are 20. 4% of total profits according to Doing Business 2012, lower than the OECD average of 24. 0%. Australia also has a highly flexible labour market, and may dismiss poorly performing staff without fear of unfair dismissal claims, providing they follow the correct guidelines. Chart 7 % of total Employment by Industry 2011 Source: Note: Euromonitor International from International Labour Organisation ‘ Undefined sectors’ refers to activities not adequately defined elsewhere in the other categories. CONSUMER LANDSCAPE Housing comprised the largest proportion of consumer expenditure in 2011 Australia has an ageing population, with those aged 65+, comprising 14. 4% of the population in 2011 up from 14. 1% in 2006. Consumer confidence in Australia has remained relatively unscathed by the global financial recession of 2008-09. Australia saw per capita consumer expenditure rise from A$32, 871 (US$30, 153) in 2010 to A$34, 052 (US$34, 880) in 2011. Per capita consumer expenditure is set to continue increasing, and is forecast to reach A$39, 541 (US$40, 504) in real terms in 2020. In 2011, the proportion of spending on discretionary items in per capita terms (everything except spending on food and non-alcoholic beverages and housing) was 68. 2% of total consumer expenditure, a figure that has declined since 2006 when it was 70. 4%. Consumers spent the most on housing, with A$7, 191 (US$7, 366) per capita in 2011. This represented 21. 1% of total per capita expenditure in 2011, a result of rising costs of housing. The average per capita annual disposable income was A$39, 046 (US$39, 996) in 2011, which has risen from A$30, 066 (US$22, 640) in 2006. Australia’s 2011 per capita disposable income was far higher than that of New Zealand NZ$24, 574 (US$19, 413). Australia had a savings ratio of 14. 0% of disposable income in 2011, a significant rise from 5. 9% in 2006 as consumers saved greater amounts to meet rising housing costs. The biggest consumer group in 2011 were baby boomers (those aged between 40 and 60 in 2011), comprising 6. 2 million (27. 8% of the population). They will continue to be the largest by 2020, with the percentage set to dip only slightly to 26. 5% of the population. This is likely to continue to contribute to Australia’s skills shortage problem, as an ageing workforce is not being replaced by employment among the young. As a result of the employment imbalance between age groups, the best marketing opportunities lie with the baby boomers. Australia also has a high and rising number of skilled immigrants with higher than average disposable incomes, creating demand for luxury consumer goods. Chart 8 US$ per capita Consumer Expenditure by Type 2000-2020 Source: Notes: Euromonitor International from National statistical offices/OECD/Eurostat (1) Data for all years is in fixed constant US$; 2015 and 2020 data refer to forecasts. (2) Other goods and services refers to consumer expenditure on Alcoholic Beverages and Tobacco, Clothing and Footwear, Household Goods and Services, Health Goods and Medical Services, Transport, Communications, Leisure and Recreation, Education, Hotels and Catering and Miscellaneous Goods and Services.