

PARLIAMENTARY RESEARCH BRIEF

A Research note from the Institute of Public Affairs distributed to all federal parliamentarians



# AUSTRALIA’S ECONOMIC COMPETITIVENESS IN CONTINUING DECLINE

In the 2000s, Australia consistently ranked as one of the most competitive economies in the world. But in recent years, Australia’s economic competitiveness has fallen behind.

The International Institute for Management Development (IMD) published its latest World Competitiveness Ranking in June 2023. The Ranking is a comparative assessment of 64 of the world’s major economies, published annually in the IMD’s World Competitiveness Yearbook.

In 2023, Australia ranked 19th, just behind the Czech Republic and Saudi Arabia—and far behind regional trading partners such as Singapore, Taiwan, and the United States (US).<sup>1</sup>

Chart 1: Australia’s competitiveness ranking



Source: IMD

A country’s overall competitiveness ranking is based on 256 criteria, which are in turn derived from statistical measures or surveys of experts. Economies with better competitiveness rankings typically have greater per capita economic output, higher business investment rates, and higher economic growth rates.

## Australia’s economic competitiveness is falling faster than comparable nations

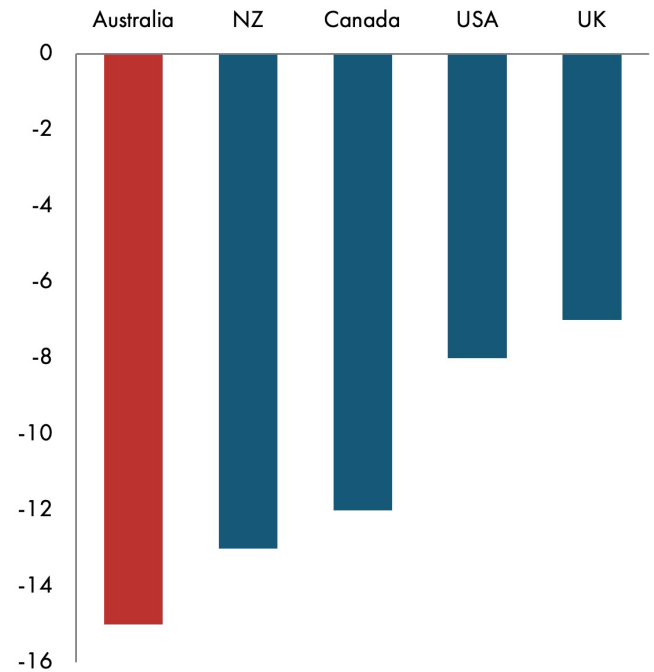
Australia has seen a significant drop in its World Competitiveness Ranking since the 2000s. In 2004, Australia was ranked the 4th most competitive economy in the world, behind only the US, Singapore and Canada.

Australia is now ranked 19th overall.

Over the last 20 years, the rankings of several other advanced economies have also worsened. But Australia’s decline from 4th to 19th has been more severe than the decline of comparable nations. Since 2004:

- Canada’s ranking has slipped 12 places, from 3rd to 15th;
- New Zealand’s ranking has slipped 13 places, from 18th to 31st;
- Britain’s ranking has slipped 7 places, from 22nd to 29th; and
- The US’ ranking has slipped 8 places, from 1st to 9th.

Chart 2: Decline in ranking 2004 to 2023



Source: IMD

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## Australia’s competitiveness is in freefall on key economic criteria

Among a selection of key criteria, which are critical to economic competitiveness and dynamism, Australia’s standing in the world has undergone a significant twenty-year decline.

**Table 1: Australia’s 20-year decline in key criteria**

Competitiveness criteria	Ranking in 2004	Ranking in 2023
Entrepreneurship	11th	62nd
Energy infrastructure	21st	52nd
Economic resilience	1st	20th
Public policy adapts to changes in the economy	4th	20th
Regulatory framework encourages competition	3rd	19th

Source: IMD

## Australia’s competitive strengths are under threat

Despite the overall decline, Australia has demonstrated strength and resilience in a number of important criteria. Australia ranks 1st in the world in terms-of-trade, namely the ratio between the prices of exports and the prices of imports. Australia has consistently topped the ranking for this criterion over the course of the last five years.

Australia’s exemplary terms-of-trade ranking is attributable to the strength and resilience of our resources and agricultural sectors. More specifically, the sectors on which the Australian economy rely to generate export revenue are:

1. Iron ore, with export value totalling \$157 billion per annum in 2023;
2. Oil and gas, with export value totalling \$141 billion per annum;
3. Coal, with export value totalling \$92 billion per annum;
4. Grain and meat, with export value totalling \$42 billion per annum; and
5. Processed gold and other metals, with export value totalling \$35 billion per annum.<sup>2</sup>

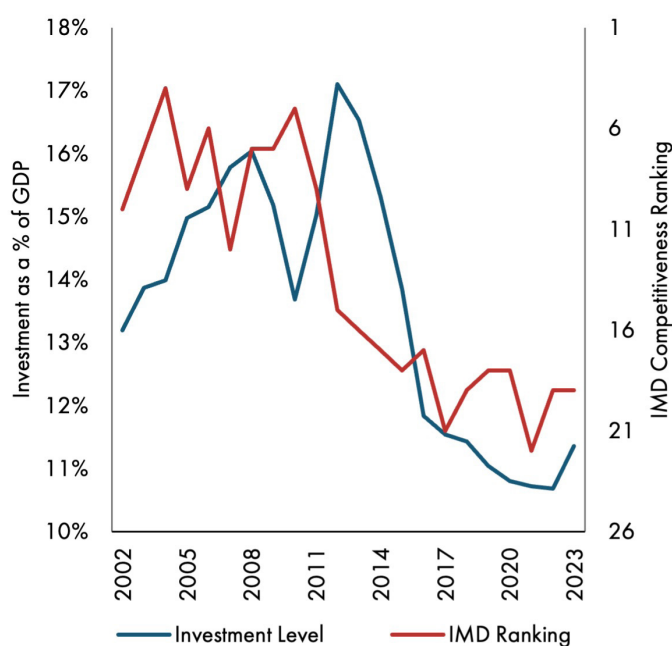
Over the last decade, Australia’s has consistently ranked in the top 10 worldwide for agricultural productivity, and is ranked 4th in 2023. But overregulation of farmers and graziers puts productivity in the sector further at risk.<sup>3</sup>

## Lack of competitiveness deters private sector investment

Australia’s continuing decline in overall competitiveness is a key reason why business investment has been floundering in recent years.

Since 2017, private investment in Australia has been stuck below 12 per cent of GDP, hovering just above its historic low of 10.15 per cent in the September quarter of 1992. The change in Australia’s level of private business investment has tracked consistently with its declining competitiveness ranking over the same period.<sup>4</sup>

**Chart 3: Investment vs competitiveness ranking**



Source: IMD, ABS, IPA

Economic competitiveness needs to improve before investors are once again willing to build wealth and prosperity in Australia.

## Red tape, tax, and industrial relations are key areas of competitive weakness

Factors that contribute to Australia’s competitiveness are under threat by red and green tape, a burdensome tax regime, and laws restricting labour productivity.

This has contributed to Australia’s declining competitiveness ranking in the twenty years since the early 2000s.

### Red tape and green tape

Australia’s economic competitiveness has declined considerably because of the imposition of red tape and government overregulation.<sup>5</sup> In the 2023 IMD Report, Australia ranked:

- 19th best for legal and regulatory framework encouraging the competitiveness of enterprises. In 2004, Australia ranked 3rd.
- 20th best in terms of the bureaucracy not hindering economic activity. In 2004, Australia ranked 6th.
- 26th best for legislation supporting the creation of new firms. In 2004 Australia ranked 7th.

Australia’s weak performance in energy infrastructure (ranked 52nd) is an outcome of the rapid decommissioning of base-load power supply without adequate, like-for-like replacement.<sup>6</sup>

### Taxation

The high taxes that individuals and companies are required to pay amount to lost investment and foregone economic activities.

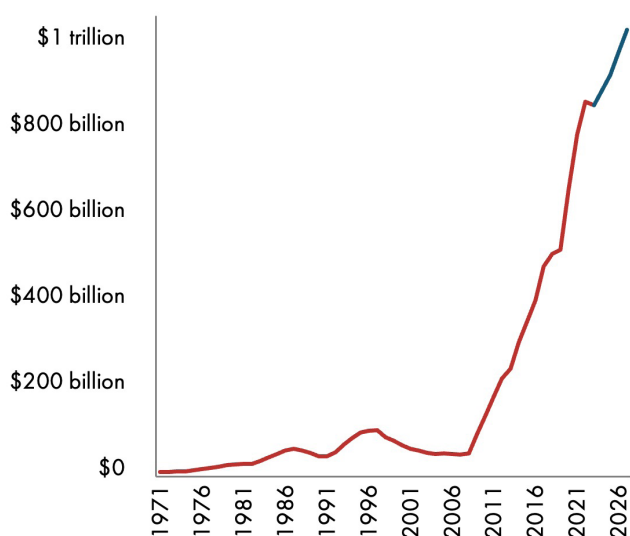
Of the countries surveyed in the 2023 IMD Report, Australia ranked:

- 57th for individual tax burden. In 2004, Australia ranked 52nd.
- 56th for company tax burden. In 2004, Australia ranked 54th.

The rankings demonstrate that, compared to most other nations, Australian families and businesses are still burdened by too much tax.

Despite high levels of taxation, debt remains a significant and growing problem. Federal government debt alone is estimated to sit at \$923 billion this financial year. It is expected to reach \$1 trillion by the financial year ending 2026.<sup>7</sup>

**Chart 4: Gross Federal Government debt**



Source: Federal Budget

According to the IMD’s latest data, Australia ranked 30th for general government debt as a percentage of GDP (at 56.40 per cent) and 47th for growth in government debt (at 2.02 per cent). Both ranked 8th in 2004.

### Industrial relations policy

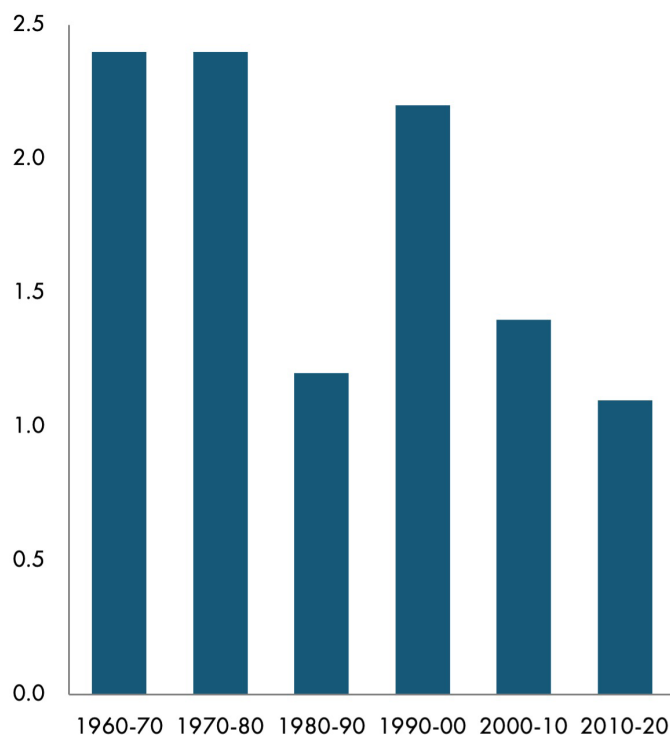
Australia has long had one of the most rigid and complex industrial relations systems in the world. In 2023 Australia ranked:

- 39th for labour regulation not hindering business activities. In 2004, just prior to the introduction of the *WorkChoices Act 2005*, Australia ranked 22nd.
- 46th for workforce productivity. In 2004, Australia ranked 49th, suggesting that workforce productivity is a chronic problem.

These low rankings are consistent with a recent study by the Productivity Commission, which found labour productivity in Australia having decreased by 4.6 per cent between April 2022 and March 2023.<sup>8</sup>

To put this into context, annual labour productivity growth in the two decades between 1960 and 1980 was positive 2.4 per cent per annum. In the 1990s, it averaged positive 2.2 per cent per annum. Between 2010 and 2020, labour productivity averaged positive 1.1 per cent per annum.

**Chart 5: Average Annual growth in labour productivity (%)**



Source: Productivity Commission

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## Australia's competitiveness is vulnerable to restrictive industrial relations laws

Recent industrial relations legislation has added and will continue to add employment red tape that will have a further negative impact on labour productivity and deter investment.

For instance, under the *Secure Jobs Better Pay Act 2022*, an employer risks being forced by a union to bargain for a multi-enterprise agreement with other employers including their competitors.<sup>9</sup>

The *Closing Loopholes Bill 2023* will delegitimise flexible forms of work such as casual, independent, and labour-hire contracting. Employment law expert Dr Mark Mourell notes the bill will result in greater uncertainty and more litigation—thus increasing costs, reducing productivity and further jeopardising Australia's economic competitiveness well into the future.<sup>10</sup>

## Governments must reform policy to improve Australia's competitiveness

The IMD's report should serve as a wake-up call for Australian policy makers to address the systemic economic problems causing declining competitiveness by:

- Cutting red and green tape by implementing mechanisms such as requiring two regulations be removed for every new regulation added, and repealing the policy of net zero emissions by 2050;<sup>11</sup>
- Lowering tax and committing to fiscal restraint by reducing spending, and returning duplicated responsibilities such as health, education and environmental protection to state governments;<sup>12</sup>
- Rejecting legislative changes which will make the labour market less flexible and addressing worker shortages by removing unfair rules deterring Australians from entering the workforce.<sup>13</sup>

## End Notes

1. International Institute for Management Development (IMD), *IMD World Competitiveness Centre (2023)* Available from: <https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking/2023/>.
2. IBISWorld, 'Biggest Exporting Industries in Australia in 2023' (2023) Available from: <https://www.ibisworld.com/australia/industry-trends/biggest-exporting-industries/>.
3. Daniel Wild and Kevin You, *Australia's Green Tape Army: An Analysis of the Growth of the Environmental Bureaucracy and Agricultural Sector* (Institute of Public Affairs Research Report, September 2022).
4. Australian Bureau of Statistics, *Australian National Accounts: National Income, Expenditure and Product: June 2023* (6 September 2023) Available from: <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-national-income-expenditure-and-product/latest-release>.
5. Daniel Wild, *Australia's Declining Economic Competitiveness* (Institute of Public Affairs Parliamentary Research Brief, 2017).
6. IMD, *IMD World Competitiveness Centre (2023)*; Scott Hargreaves, Daniel Wild and Kevin You, *Liddell The Line In The Sand: Why It's Time to Hit Pause on the Closure of Coal-Fired Baseload Power Stations in the NEM* (Institute of Public Affairs Research Report, 2023) 1-44.
7. Treasury, *Budget 2023-24 Budget Paper No. 1* (9 May 2023) 7.
8. Productivity Commission, *PC Productivity Insights: Bulletin 2023* (July 2023) 4.
9. Section 243(2) of the *Fair Work Act 2009* gives examples under which employers can be brought together in multi-enterprise agreements.
10. Mark Mourell, *IR Bill a Deal Breaker* (2023) Vol 75, Issue 3 *IPA Review* 40-45.
11. See Daniel Wild, *Reducing Red Tape in Australia: One-in-two-out Rule* (Institute of Public Affairs Research Report, May 2017); Kevin You, *Submission to the Inquiry into Promoting Economic Dynamism, Competition, and Business Formation* (Institute of Public Affairs, March 2023).
12. See Kevin You and Morgan Begg, *Australia's Spending Crisis* (Institute of Public Affairs Research Report, May 2023); Daniel Wild and Darcy Allen, *Five Principles of Red Tape Reduction* (Institute of Public Affairs Research Report, April 2018).
13. See Saxon Davidson, *Unprecedented Nationwide Jobs Crunch: Geographic Analysis of Worker Shortages in Australia* (Institute of Public Affairs Research Report, September 2023).