



ICT as a driver of growth and its implications for the proposed Australia- Malaysia Free Trade Agreement

Overview

Introduction

Growth of ICT usage in Australia

Comparisons between Malaysia and Australia and the rest of the world in terms of ICT spending

Multifactor productivity growth in Australia and the contribution of ICT

Implications of the Australian experience for Malaysia and the AMFTA

Emerging concerns in Australia

Implications of the Australian experience for Malaysia and the AMFTA

Introduction

The proposed Australia-Malaysia Free Trade Agreement (AMFTA) brings opportunities for Australia and Malaysia to reassess their competition law and regulatory frameworks.

Department of Foreign Affairs and Trade issues paper:

'FTA negotiations could provide a forum for Australia and Malaysia to develop bilateral mechanisms for cooperation on competition policy, including with respect to capacity building and enhancing the possibility of cooperation between domestic agencies on enforcement matters.'

ICT performance a potentially important element in that reassessment

Public policy and the growth of ICT usage in Australia

While Malaysia has put primary emphasis on *producing* ICT, emphasis in Australia has been on removing obstacles to more widespread use of ICT

Increasing the exposure of the economy to competition, through liberalisation and deregulation, have been key factors in this respect

As competitive pressures have intensified, firms have had strong incentives to increase their efficiency, including through investment in new technologies

Taking IT investment data as an indication of overall investment in ICT, ICT investment grew much faster than investment in other capital from 1984 to 2002 in the market sector

Growth of ICT investment in the market sector (in %) – sourced from Productivity Commission

	1984-85 to 1989-1990	1989-90 to 1994-95	1994-95 to 1999-00
IT	35.2	17.2	29.8
Hardware	31.4	23.8	41.5
Software	36.5	14.8	22.8
Other capital	3.9	0.4	4.2

Multifactor productivity growth in Australia

1988-89 to 1993-94	1993-94 to 1998-99
0.7% p.a	1.8% p.a

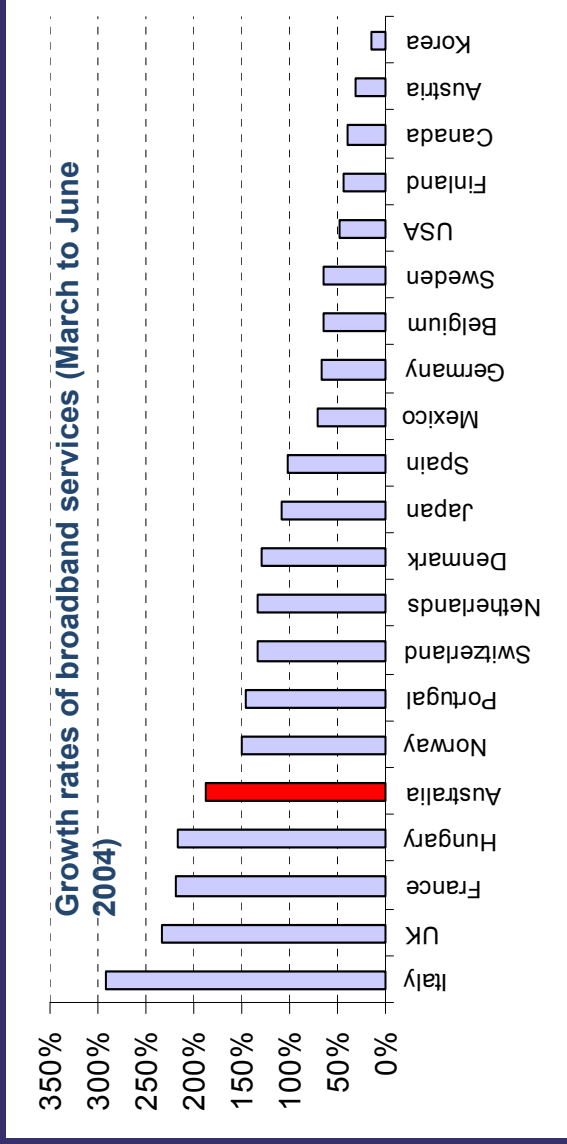
Quantification of effects of ICT usage on productivity growth

Productivity Commission has quantified contribution of ICT to multifactor productivity growth.

The most recent results from the basic model, reported in a 2004 publication, found that the effect of ICT use varied across industries ranging from a less than 0.05 per cent increase in annual MFP growth for construction to over 0.30 per cent for cultural and recreational services.

Models which better captured the impact of a wider range of complementarities such as management education and worker skills and the probability of ICT use led to slightly higher estimated contributions of ICT usage to MFP growth

Australia is now one of the leading countries in growth of broadband

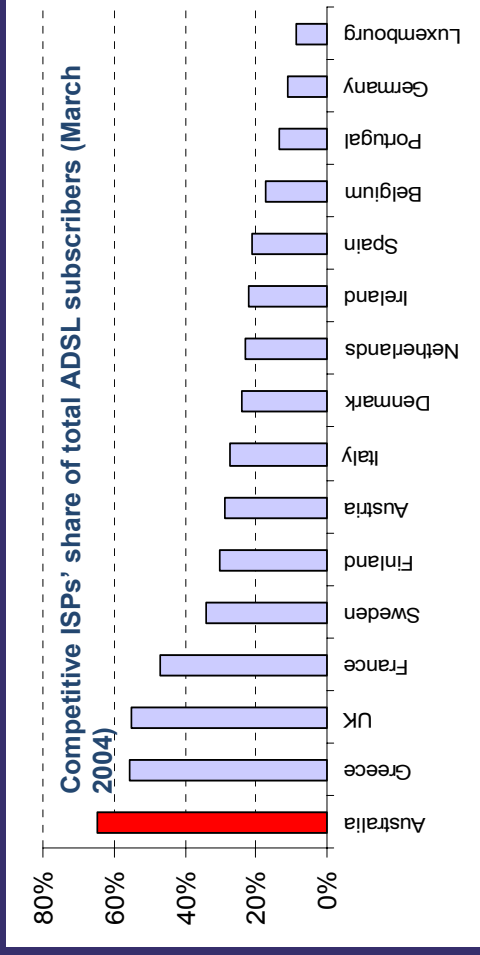


Note: OECD countries with less than 60,000 broadband services in 2002 were excluded from the analysis to prevent countries new to broadband from distorting the results.

Source: CRA analysis

Competitors to Telstra are taking the lion share of ADSL growth

The Australian ADSL market is more competitive than any EU market. Of all Australians purchasing ADSL, 65% subscribe to competitive ISPs



Source: CRA analysis

Implications of the Australian experience for Malaysia and the AMFTA

The mere use and diffusion of ICT can have significant benefits for an economy in terms of productivity growth.

The policies that best promote ICT diffusion are those which would be generically desirable – a pro-competitive policy framework.

As services are now an important part of Australia's exports and as Australian services firms among the most innovative ICT users, the fostering of trade in services between Australia and Malaysia may be an effective way of diffusing innovative use of ICT to Malaysia.

Liberalisation of services trade facilitated by an AMFTA, by increasing the opportunities for increased services exports to Malaysia can further hone Australia's strengths in this area, thus creating a 'learning by doing' effect.

Emerging concerns in Australia - general regulatory framework

While the greater competition encouraged greater use of ICT, there are emerging concerns about whether current regulatory frameworks are promoting adequate levels of investment in key infrastructure areas. Why?

In the early 1990s, when substantial parts of Australia's infrastructure sector were controlled by vertically integrated entities, it made sense to grant regulators wide powers and considerable discretion in their exercise. These powers helped accelerate the reform process.

However, the very extent of those powers, and their use in at times very aggressive ways, may be threatening needed expansion and renewal investments.

Regulated markets

Regulation affects a large proportion of the economy when measured in terms of assets and revenues

Regulated industry	Indicative regulated asset based (\$bn)	Indicative economic asset life	Annual Depreciation based on indicative economic life (\$m)	Indicative Return on Capital - 10% WACC (\$m)
Electricity	41.3	20	2,065	4,130
Gas	13	50	260	1,300
Water	39	70	557	3,900
Telecoms	28	12	2,333	2,800
Rail	16.3	40	408	1,630
Ports	3.2	30	107	320
Airports	3	30	100	300
Total	143.8	32	5,830	14,380

Telecommunications Regulatory Controls Imposed on Telstra Corporation Limited



Network
Reliability
Framework

Equivalent to
AMPS network

Universal Service
Obligation

Applies to all carriers and carriage service providers

Specific legislative obligation applying to Telstra only

Telecommunications Regulatory Controls Imposed on Telstra Corporation Limited



Network
Reliability
Framework

NETWORK
COVERAGE

Equivalent to
AMPS network

DDSO

Universal Service
Obligation

Applies to all carriers and carriage service providers

Specific legislative obligation applying to Telstra only

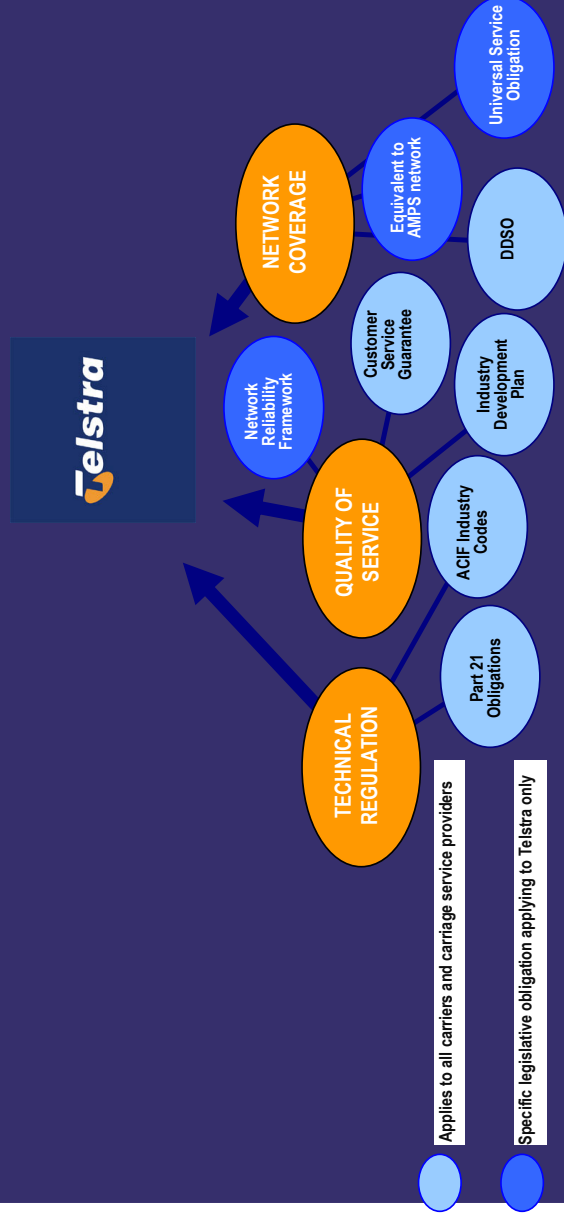
Telecommunications Regulatory Controls Imposed on Telstra Corporation Limited



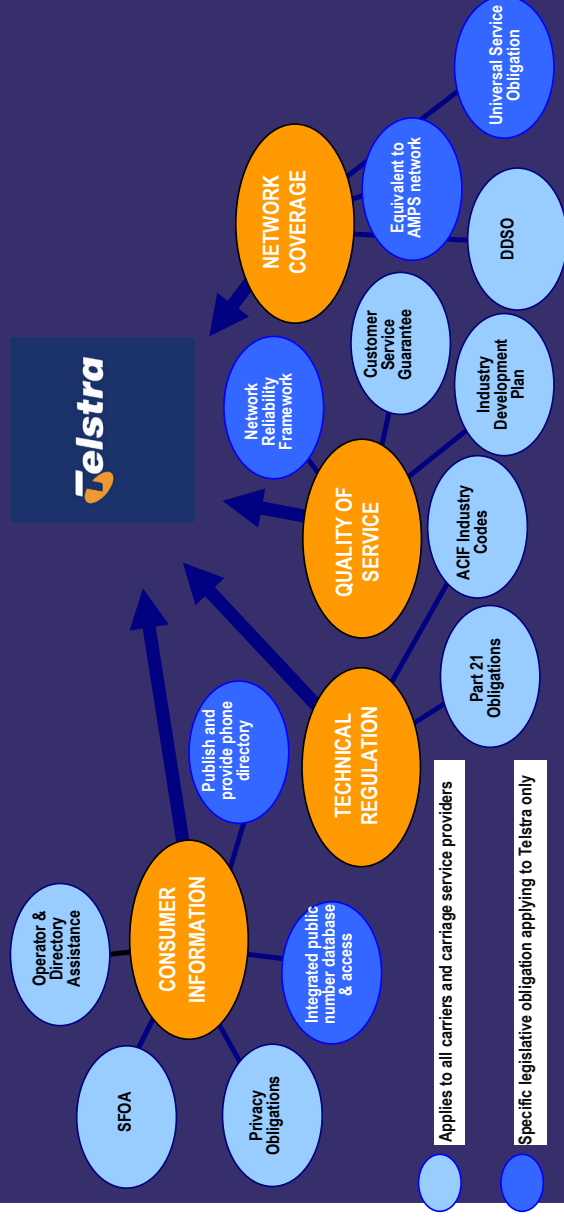
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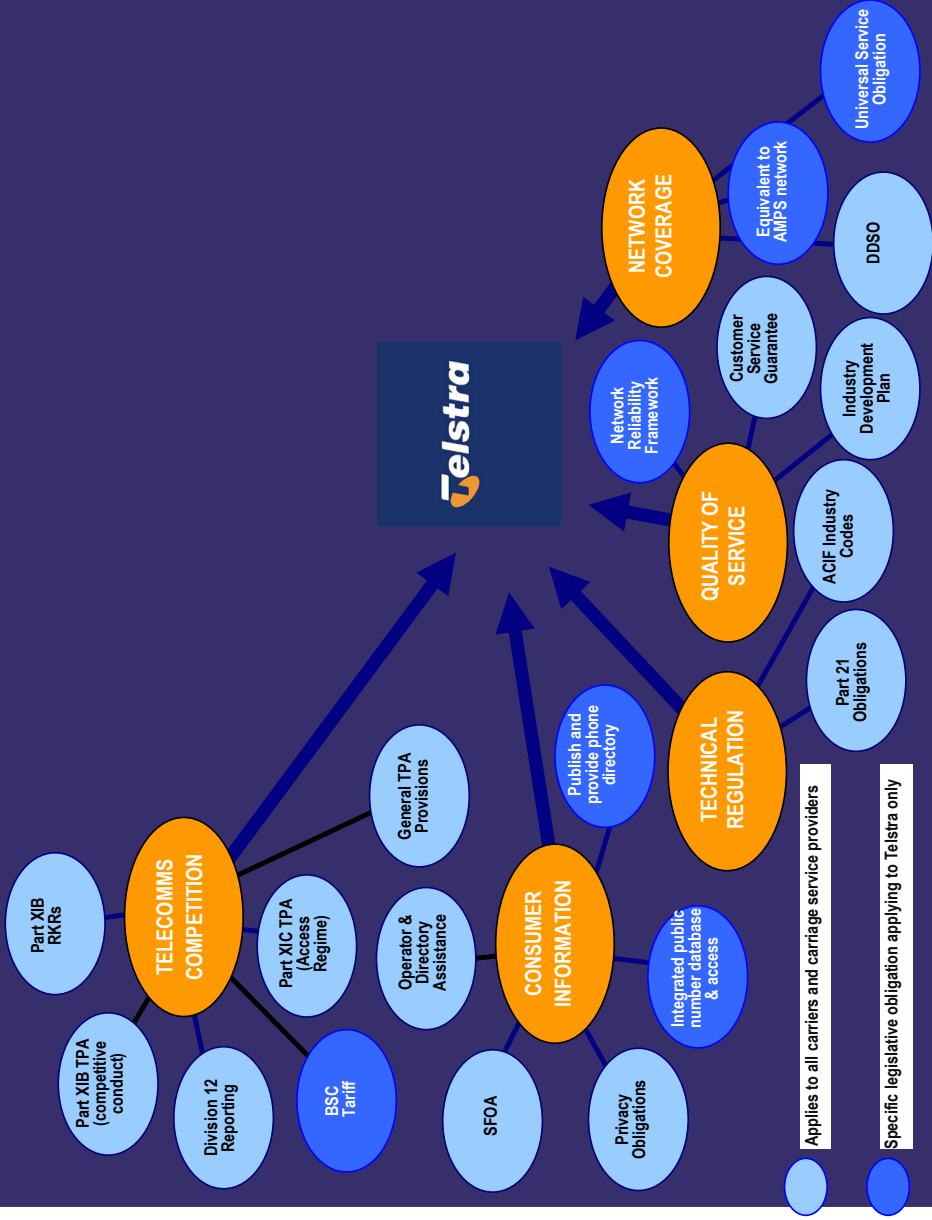
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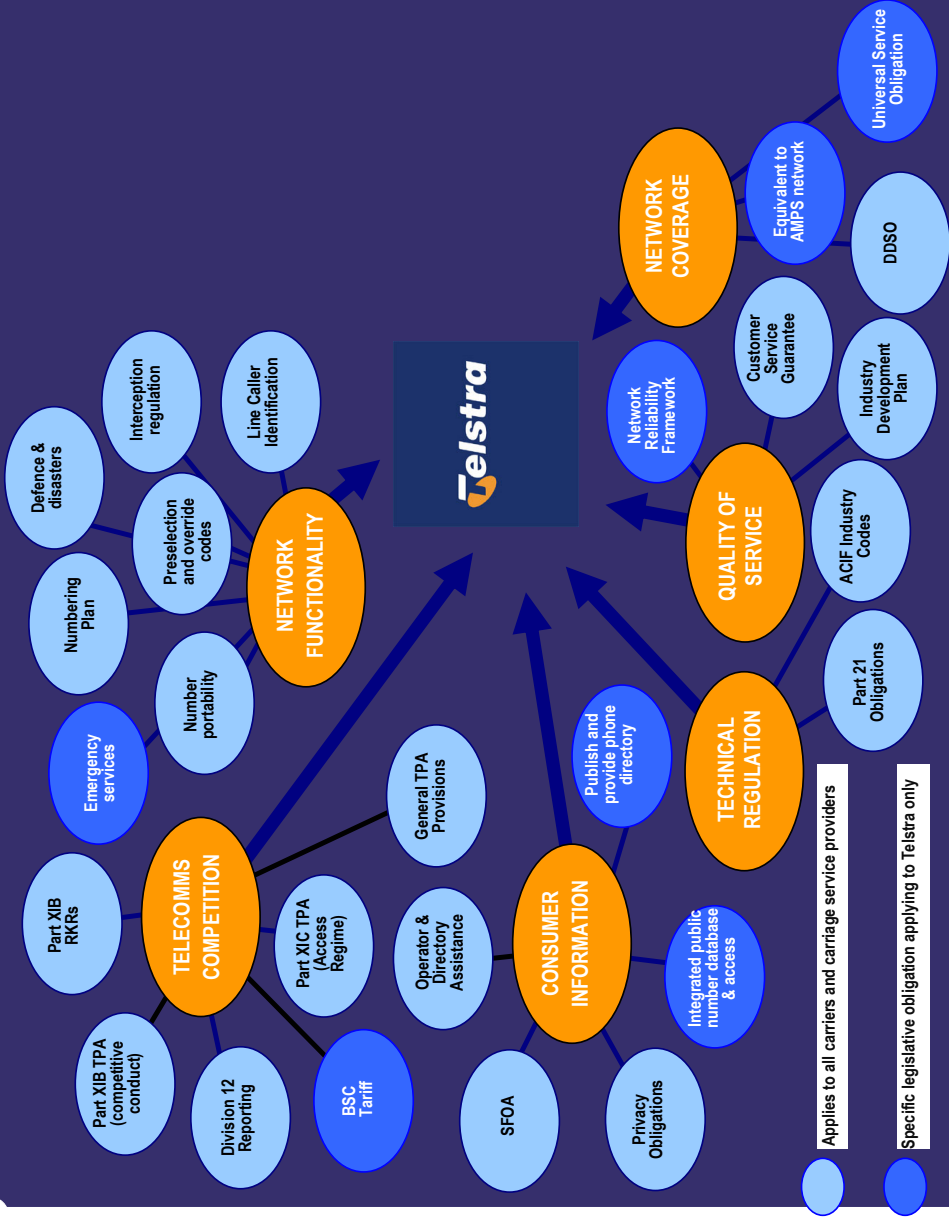
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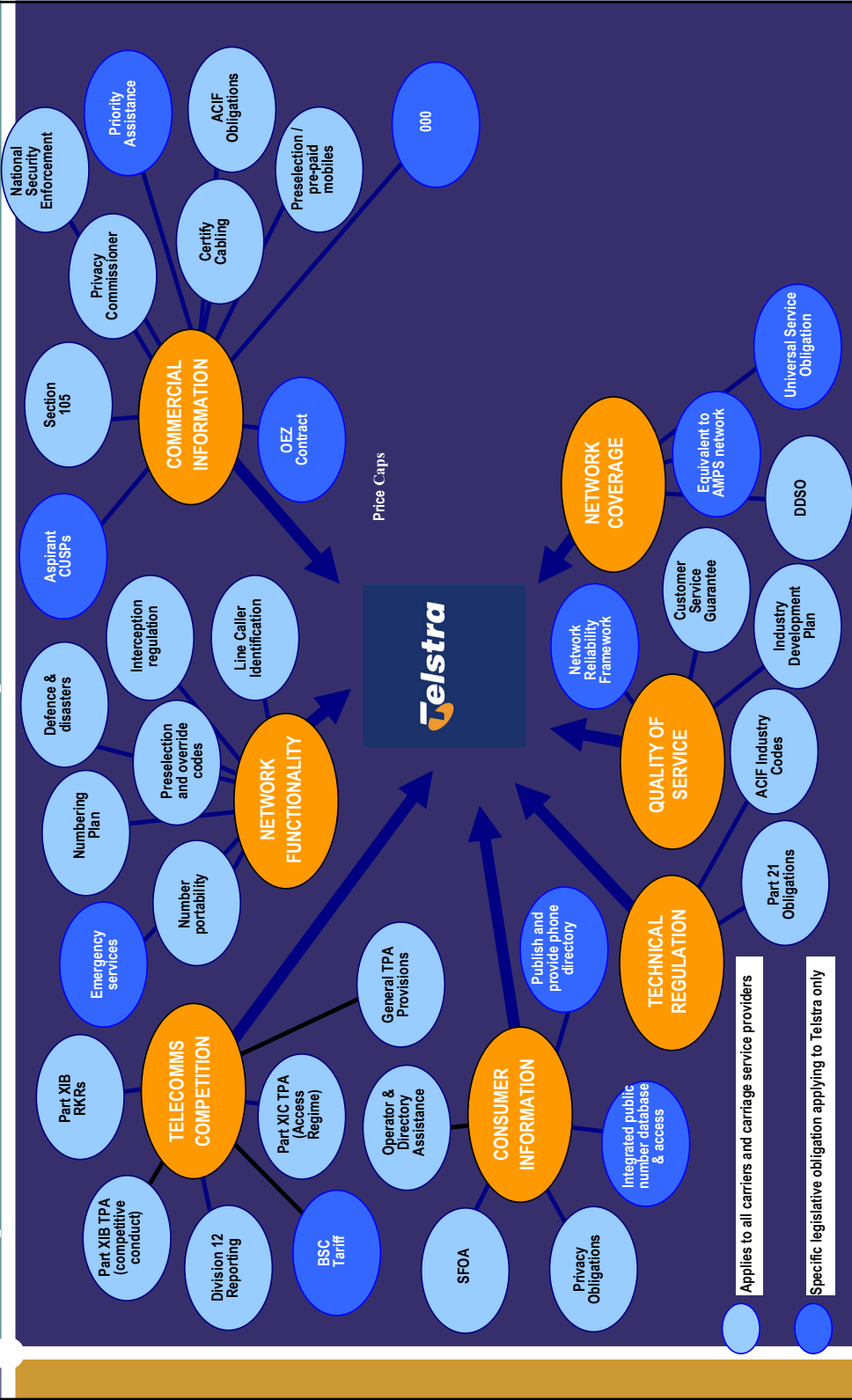
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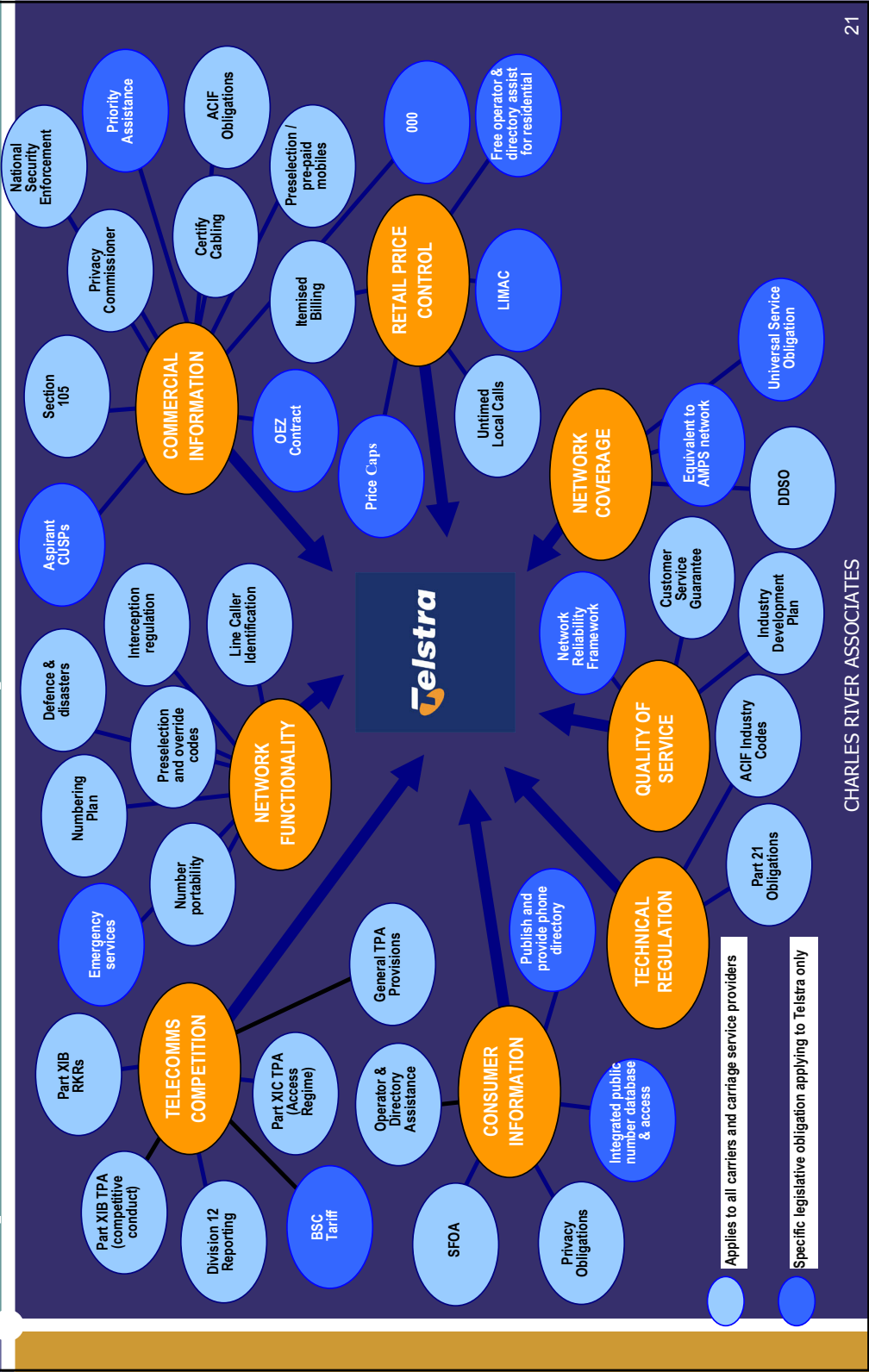
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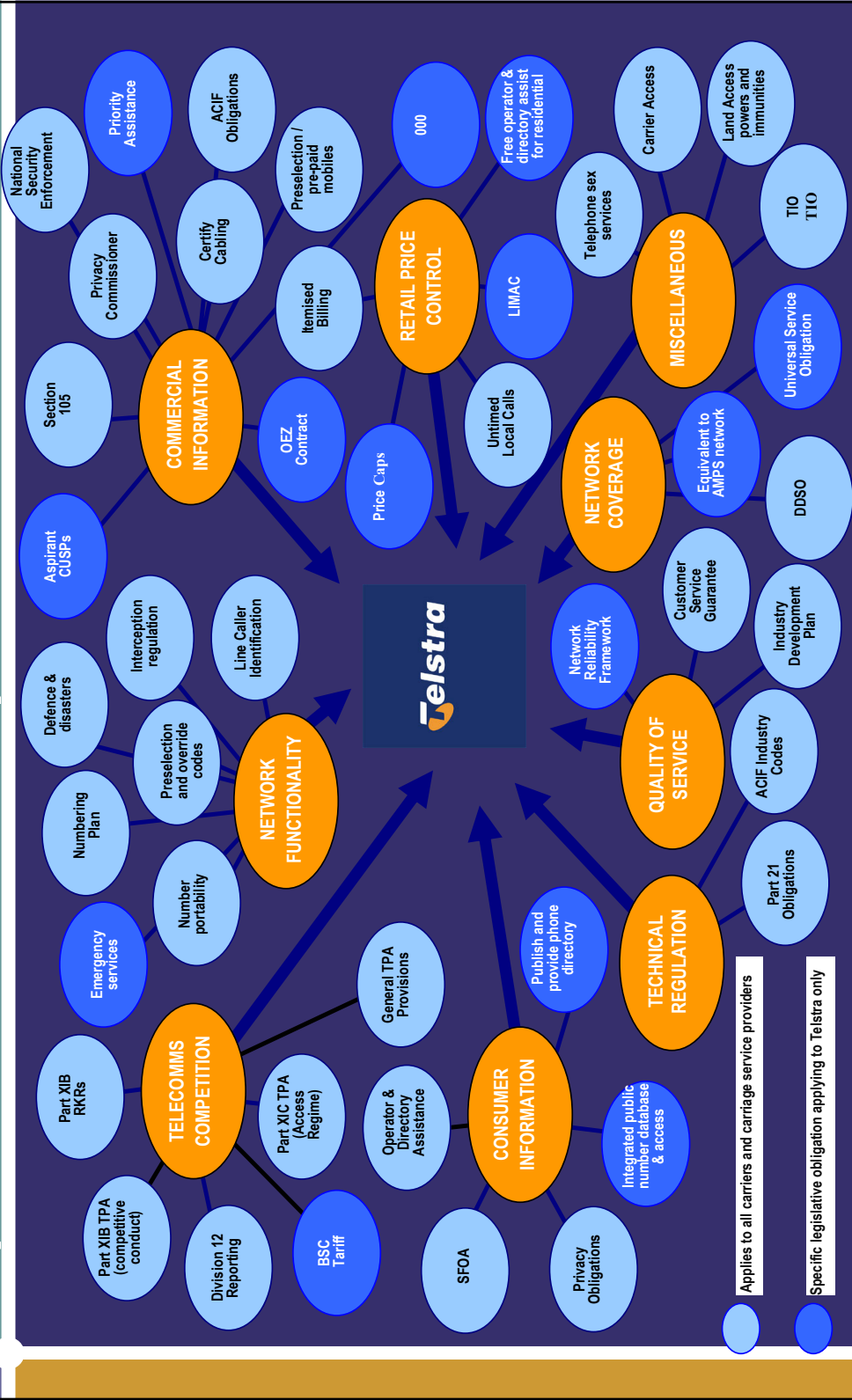
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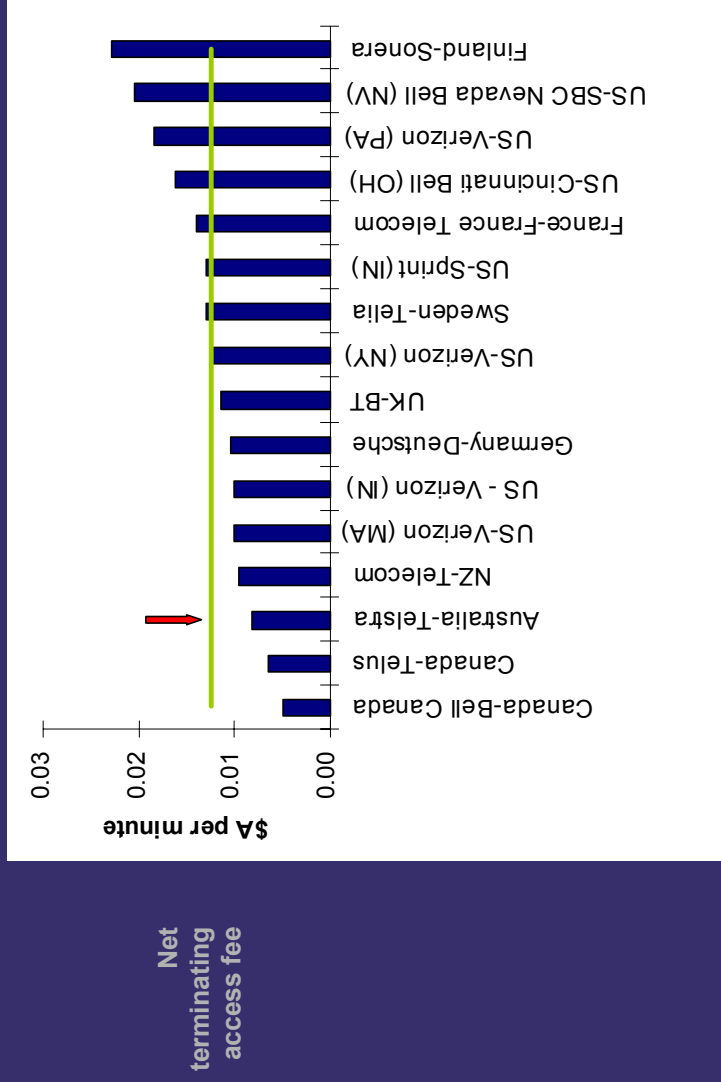


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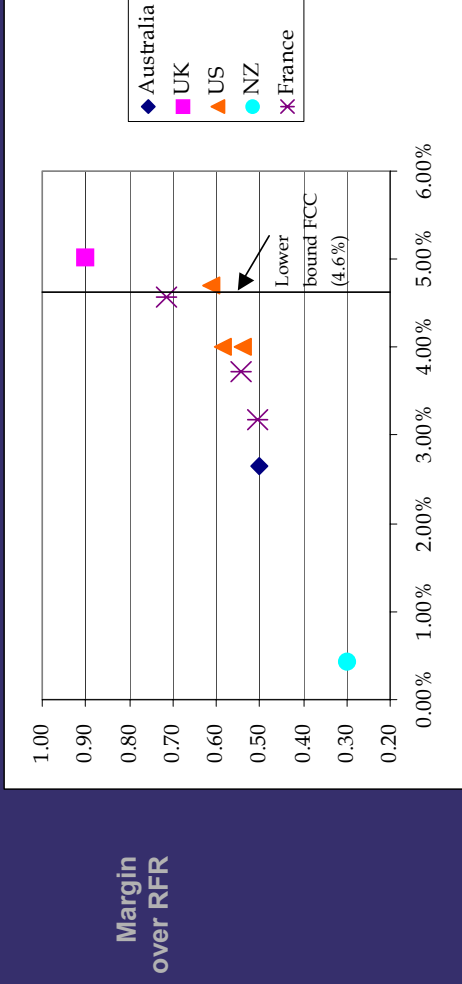


Emerging concerns in Australia - telecommunications

These powers have been used to impose access prices that by international standards are very low

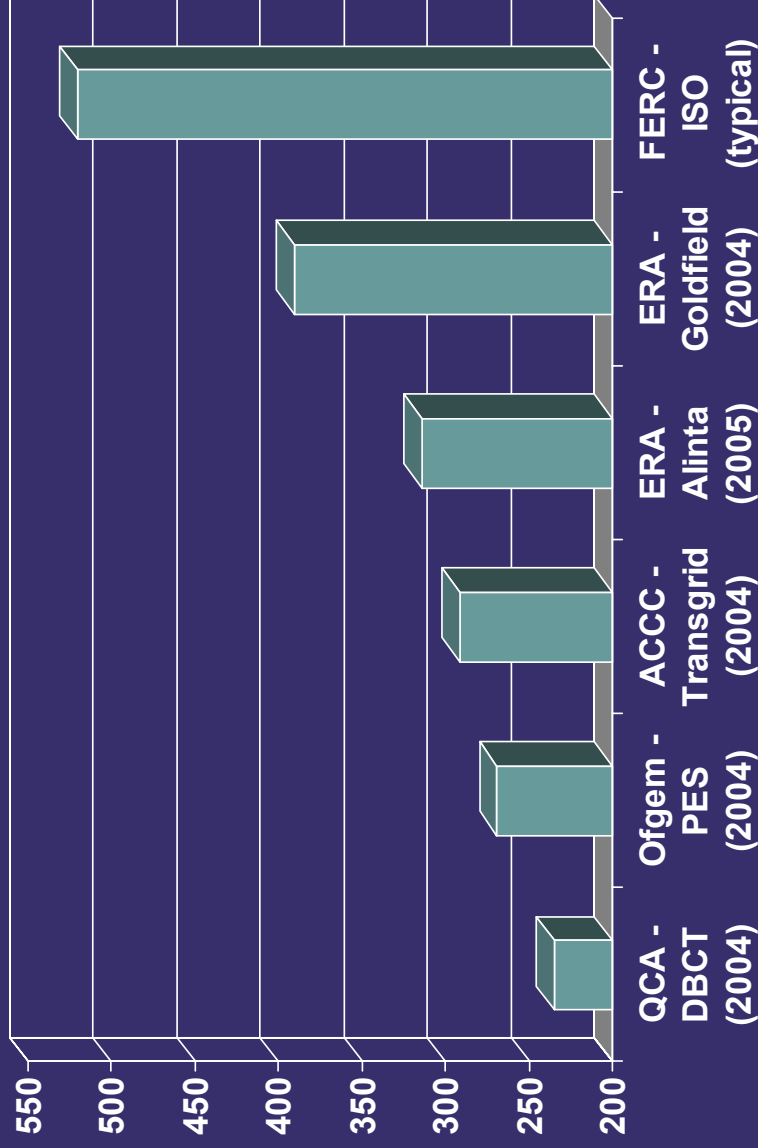


Allowed rates of return have also been low



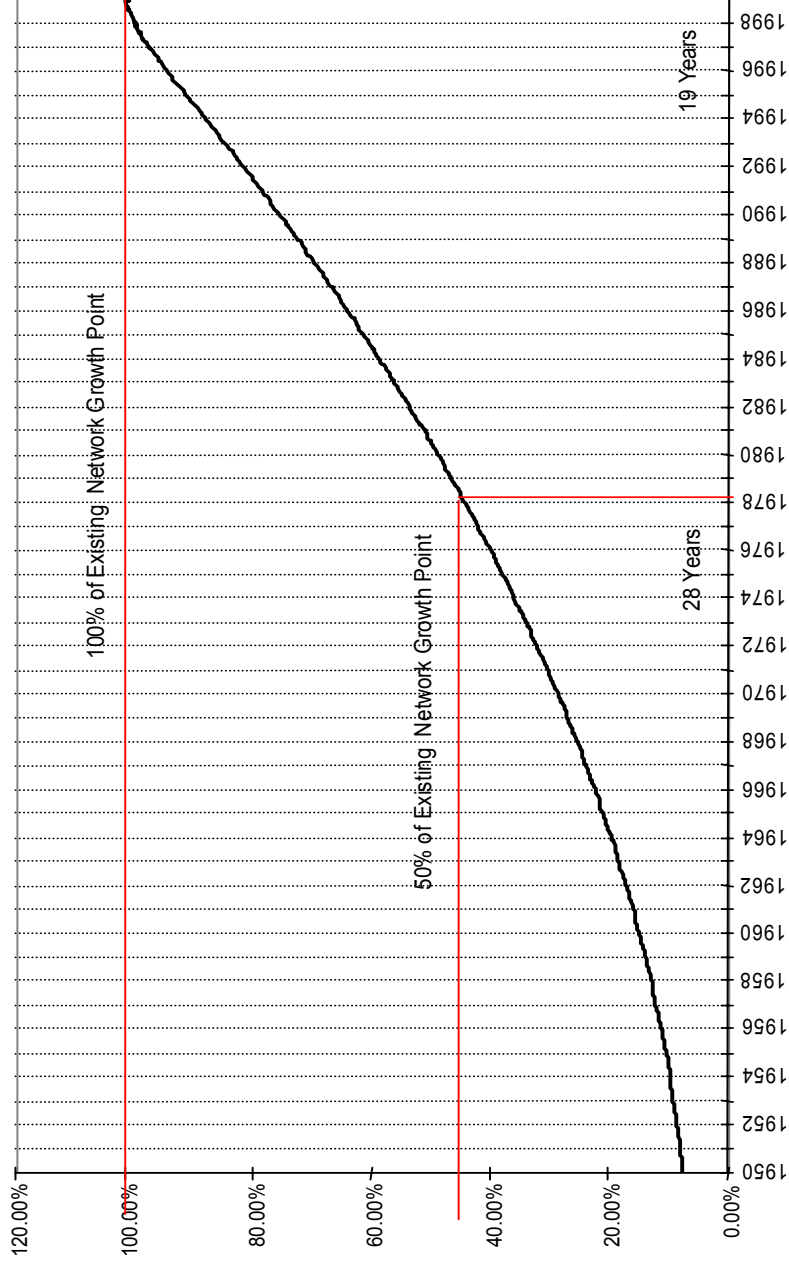
Asset Beta

WACC margin over risk free rate for DBCT unprecedented in Australia and overseas

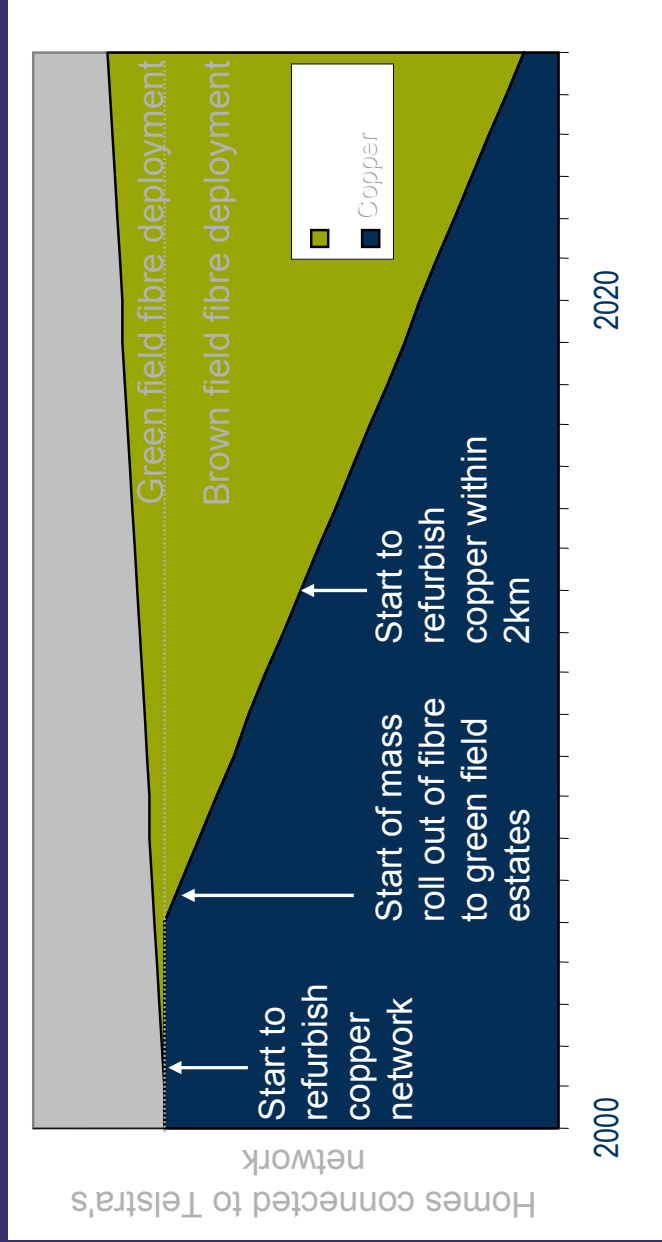


Substantial renewal needs going forward

Estimated National Basic Access SIO by % - Indicative of CAN Network Size / Age Profile



Gradual but substantial investment required to renew network to 2040



Conclusions

Australia's policy settings have worked well in promoting widespread use of ICT and realising consequent increases in productivity.

However, policy settings which may have worked well in the past may not work well at a later stage when promoting infrastructure investment is of key importance.

Inappropriate regulation can seriously erode the gains already made if it prevents needed investment. Substantial change is therefore needed to the regulatory framework.

The aging of our existing infrastructure and the prospect of real benefits from deployment of new infrastructure makes it all the more urgent that this change occur.