

# CapitalAnalyst

Australia Edition - direct from Canberra



Thanks to maybe Corona and the Nationals policies, as well as the Regional Australia Institute, the regions are booming if not mushrooming, it seems everyone wants to move to more.

## Regional Australia is mushrooming

### THE ECONOMY

The Regional Australia Institute is a think tank devoted to analysis of policies and issues that affect regional Australia. The Regional Australia Institute (RAI) is funded by a combination of

federal and state government, private sector and from time to time, university and local government resources.

In December 2018 it came up with a novel approach to regional development. In a research paper titled: 'A new approach to regional policy in Australia'. It proposed that governments should recognise that top down, 'one size fits all' approaches to regional development led to second best solutions. Instead, it argued, governments should recognise that regions differed one from the other and responded best to bottom-up endemic solutions.

The RAI proposed a new policy framework based on the development of regional solutions for regional requirements, collaboration between the different levels of government and stakeholders, and, where possible, localised procurement of goods and services to promote regional development.

This new approach has now been made manifest in the 2021 federal budget with the \$250 million 'Building Better Regions' grants funding. In an address to the Regional Australia Institute on the Wednesday before the budget, Deputy Prime Minister Michael McCormack foreshadowed almost \$280 million of budget measures for regional Australia, including a sixth BBRF round of grants to support infrastructure and community projects.

Mr McCormack said regional Australia remained at the heart of the federal government's economic recovery plan, and this year's budget would support that.

"Ladies and gentlemen, yes – we hear the call from regional Australia and this year's budget will continue and extend that laser-sharp focus on regional Australia's needs and wants," he said.

Mr McCormack said last year's \$200 million budget commitment for a fifth Building Better Regions Fund (BBRF) round was oversubscribed by almost a billion dollars and the government is still considering applications.

The fifth round offered grants for new and upgraded infrastructure, including \$100 million for tourism related projects, and community investments including local events and regional plans.

This year the government will provide a quarter of a billion dollars for a sixth BBRF round, Mr McCormack said.

"I can advise in the new financial year the government will deliver an additional \$250 million into a Sixth Round of BBRF," he said.

"I'm delighted this will further accelerate regional recovery and deliver growth, community renewal, more jobs and new workforce skills, for the long term."

However, the budget failed to deal with one chronic problem: the shortage of housing in the regions. As Michael McCormack is fond of saying, there are 64,000 unfilled jobs in regional Australia, but people are reluctant to take them up because they cannot find anywhere to live.

Mr McCormack indicated the Budget would offer little comfort for those concerned about housing in regional areas. In a post-budget interview, he said housing was a matter for the states.

“The remit for housing falls largely in the states and we’ll work with them to make sure they’ve got the right programs assistance and support from the federal government to continue to do their job,” he said.

Another issue has been the lack of resources among councils to develop and manage projects of any size for regional renewal and development. These are not areas where regional councils have traditionally had skills. Councils have become just another employer trying to persuade skilled labour to relocate to the country.

So there remains a lot more to do, an opportunity for smart investors.

## The evolutionary role of regional hubs

### THE ECONOMY - FOOD AND AGRICULTURE

The great American social theorist, Jane Jacobs, believed that international trade was a dynamic process that essentially occurred between cities. Her thesis was that the more dynamic trading hubs a nation had the stronger its economy would be. The strength of the United States lay in the fact that it had a large number of dynamic centres that could trade with each other and internationally.

China has emulated the United States by creating a large number of powerful regional trade hubs.

The twin changes of the Covid pandemic and the boom in trade with Asia have now caused Australian governments and trade-oriented organisations to look at the growth of regional hubs in Australia as a mechanism for promoting economic growth.

The chief executive of the Business Council of Australia, Jennifer Westacott, penned an op-ed for the Camden Advertiser which outlined the importance of regional hubs for economic recovery. She said that both the National Farmers Federation and the Regional Australia Institute have developed roadmaps for the establishment of regional hubs and argued that these should be incorporated into decision making.

Ms Westacott says the federal government's regional deals and the NSW government's special activation precincts are helping make the most of the opportunities. The federal budget invested an extra \$250 million for a sixth round of the Building Better Regions Fund, bringing its commitment to regional towns and cities from the fund to more than \$1 billion. However, she argues that there should be more co-ordination through a national approach, rather than a piecemeal approach that responds to proposals from individual councils.

As Ms Westacott says:

“If we continue with a piecemeal approach to regions, often dictated by state boundaries, we dilute our best intentions and effort rather than gaining the traction we need to back in the places across the whole country with the greatest potential to lift our national performance.”

She was talking at the National Press Club where she was launching the ‘Regionalisation Agenda’ with Tony Mahar of the National Farmers’ Federation and Peter Strong from the Council of Small Businesses of Australia. The NFF Regionalisation Agenda is sub-titled, ‘The Time is Now’ and Tony Mahar made the point that:

“COVID-19 has been an absolute disruptive force, the NFF’s Regionalisation Agenda urges government and industry to work together to capitalise on the disruption and ensure the bush can deliver for all Australians: economically, socially and culturally.”

Mr Mahar said regionalisation was not just about regional communities, but a solution to many of the challenges facing urban centres, including chronic congestion and overpopulation.

“Australia stands alone in having almost 65% of its population in big cities, compare that to New Zealand or Canada who only have 30%. This concentration causes major problems.”

The NFF-led Regionalisation Agenda proposes more than a repeat of the tired thinking of relocating city jobs to regional areas.

“It charts a vision for regional Australia where regional economic activity and jobs are designed to thrive in the unique economic and geographical conditions of that region.

“Large regional cities should be places where teachers, nurses, tradies, lawyers and investment bankers live side by side and they should be well equipped to retain their best and brightest with education and job opportunities,” Mr Mahar said.

“To make regionalisation happen, we need to throw the same level of resources for place-based development of regional centres as we do for places like Western Sydney.

“We need federal, state and local governments to work hand in glove with industry on well-defined regional priorities.”

“We must challenge our bureaucrats whose decision-making processes always relegate transformational regional infrastructure behind infrastructure for our cities.

“That is why we are calling for a review of the disproportionately high discount rates used to assess infrastructure proposals that disadvantages investment in regional infrastructure, and we need a shovel-ready priority list for regional development investments to be drawn up.”

The NFF-led Regionalisation Agenda is supported by Australia’s leading industry and corporate voices, and the NFF believes that agriculture can play a vital role.

“Australia is without a cotton processing facility, despite Australian cotton being some of the most sought after in the world. The same is almost true for our renowned Merino wool,” Mr Mahar said.



The Regional Australia Institute has identified a growing movement of people from urban areas to the regions. It is also obvious that this causing problems for regional authorities as they deal with planning and infrastructure issues along with proposals for new private sector investment. These issues will need to be resolved quickly if momentum is not to be lost.

## Ructions remain over the Murray Darling Basin

### THE ECONOMY

Australian minister for resources, water and northern Australia, Keith Pitt has done his best to get a handle on the Murray Darling Basin issues, but he has yet to establish a consensus among the disputing parties. There are three areas of contention: water recovery; water allocation and compliance.

Minister Pitt appears to have fixed the last of these problems by introducing legislation, during the penultimate sitting week before the winter break, for the establishment of a position of Inspector-General of Water Compliance. He says this will be a cop on the beat and the bill creates new offences of water theft and illegal water trading.

As minister Pitt said when he tabled the legislation:

“The Inspector-General is all about ensuring strong and independent regulation of our largest water resource.

“No-one will be marking their own homework.

“Compliance is at the heart of a fair water-sharing system. This Bill significantly strengthens the compliance system in the Murray–Darling Basin.

“The Bill responds to concerns raised by stakeholders throughout the Basin by creating new water theft and illegal water trading offences and penalties. These new offences and penalties will act as a significant deterrent.”

The biggest disputes relate to the process of water recovery. Environmentalists want the government to continue the policy of water buybacks to ensure the environment gets the allocation of water stipulated under the agreement. However, the farmers and the riparian communities are opposed to buybacks and the government has adopted a policy of water recovery projects to deliver the water needed for the environment.

The Australia Institute recently released a report that was highly critical of water recovery projects. The report compiled in association with water consultants Slattery and Johnson, concluded that water recovery projects were actually interfering with environmental flows and harming farmers interests.

In the report Maryanne Slattery, the chief water consultant, commented in relation to the Yanco Creek recovery project which is being undertaken at the conjunction of the Murrumbidgee and Murray rivers:

“The Yanco creek system is one of the best managed parts of the Basin. It is the ideal of a healthy, working creek system, but this is at risk due to supply measure projects caused by the 2018 amendment to the Basin Plan.

“It is doubtful these projects would save any water at all as the ‘transmission losses’ they purport to save are actually natural and necessary parts of the water cycle.

“Even the water agencies tasked with implementing these projects have said that benefits of the projects have been ‘overstated’ and that any ‘savings are largely taken up delivering environmental flows back into the system they were saved from’.

“These infrastructure projects will increase extractions for irrigation, above and beyond the intended savings, because they will increase ‘supplementary flow’ in the Murrumbidgee.

“Supplementary flows can be used by licence holders, but historically have not been used due to a lack of infrastructure. Government-subsidised new dams have been built to use supplementary flows and changes to the way they are licenced will also increase their extraction.”

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The minister released a report in response to this report, which was heavily critical of it. He said:

“A report on the Murray-Darling Basin from left wing political organisation The Australia Institute is filled with wild inaccuracies and needs to be retracted.

“Minister Pitt says the so-called “think tank” has misled Murray-Darling Basin communities.

“The report is full of claims based on false assertions that reveal the Australia Institute’s ignorance of water recovery projects in the Murray-Darling Basin,” Minister Pitt said.

“The report claims 1200 bridges have been proposed through the off-farm water efficiency program.

“The fact is not one bridge has received funding as part of water recovery efforts.”

Minister Pitt is yet to deal with water allocation issues. Farmers are objecting to the fact that there are people trading water that have no farming interests to be irrigated. They want these water rights to be forcibly acquired so they can be reallocated to farmers who need them.

## Australia should tread carefully on Wuhan leak theory

### DEFENCE AND FOREIGN POLICY

On 26 May President Biden issued a statement in which he announced that he had directed his 18 intelligence agencies to report on whether the Covid 19 virus originated in the Institute of Virology in Wuhan or whether it was passed from an animal by way of a wet market. This has created a bandwagon effect in Australia with anti-China hawks eager to blame China for the pandemic. The government should tread carefully in attributing blame for the pandemic.

The Wuhan leak has gained momentum since the beginning of the year when the Trump administration's secretary of state, Mike Pompeo, announced unequivocally that the virus originated in the Wuhan Institute of Virology.

There is a possibility that the coronavirus may have escaped, accidentally or otherwise, from the laboratory in the central Chinese city of Wuhan where the virus was first recorded.

The supporters of the leak theory point to the presence of the major biological research facility in the city. The Wuhan Institute of Virology (WIV) has been studying coronaviruses in bats for over a decade.

The laboratory is located just a few kilometres from the Huanan wet market where the first cluster of infections emerged in Wuhan.

Most proponents of the leak theory argue that the virus that escaped was one that had been isolated from an animal, probably a bat, rather than being a virus that was genetically engineered, although there are some commentators who believe that the Wuhan Institute of Virology is involved in biological warfare experimentation.

A classified US intelligence report - saying three researchers at the Wuhan laboratory were treated in hospital in November 2019, just before the virus began infecting humans in the city - began circulating in US media at the end of May.

The momentum was enhanced when Anthony Fauci head of the Centre for Infectious Disease Control made an important statement:

“That possibility certainly exists, and I am totally in favour of a full investigation of whether that could have happened,” Anthony Fauci, told the US senate committee on 11 May.

President Biden now says he asked for a report on the origins of Covid-19 after taking office, “including whether it emerged from human contact with an infected animal or from a laboratory accident”.

Australia needs to tread carefully in its response to this new analysis. The Chinese are very sensitive to accusations that they are to blame. In the event that they see any report as a loss of face for their leader, China will look to retaliate against the promoters.

Australia has been the primary victim of China’s retaliation and it is time for others to share a bit of the load. From this perspective there is no need for Australia to be the leader of the pack in criticising Chinese failures.

## The G7 meeting will be significant for Australia

### THE ECONOMY

There have been murmurings of discontent over the fact that Scott Morrison is travelling to Britain for the G7 meeting in Cornwall. The carpers are complaining that he is going on a junket while Victorians are suffering in lockdown. It is a reprise of the holiday in Hawaii while the bushfires were raging.

However, this meeting will be more than just ‘a getting to know you’ with important world leaders, although he will have bilateral meetings with President Biden, President Macron of France, Prime Minister Suga of Japan, Boris Johnson and President Moon of South Korea. During these bi-laterals the emphasis is likely to be on the pandemic, climate change and responses to China’s increasing assertiveness.

The G7 is the summit meeting of the seven biggest market economies in the world. Russia and China are excluded, although they are members of the G20. Eventually China will have to be included because of the size of its economy. To date the G7 has been dominated by a trans-Atlantic agenda and it has largely ignored the Asia-Pacific region. There are pressures for this to change generated by the spectacular growth of Asian countries and the increasing Chinese influence in the region.

The secretary-general of the OECD, Mathias Cormann, a former Australian finance minister has said he wants the organisation to strengthen its ties with China and the ASEAN countries. Scott Morrison will use Cormann as an ally to push the North Atlantic countries to lean towards the Asia-Pacific while at the same time pushing to tighten the rules applying to the international trade and payments system.

From this perspective the new agreement on the international taxation of mobile global capital, which is likely to be approved at the meeting, is a good start. This is an agreement that international companies with the capacity to shift capital to tax havens will be taxed on a global basis and the revenue divided between countries based on a predetermined formula. The basic rate of taxation will be 15%.

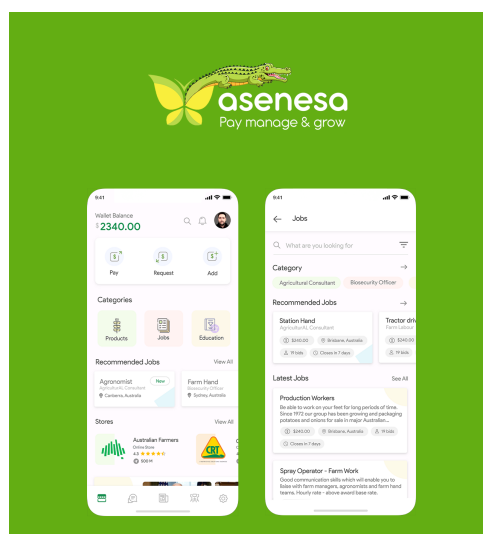
This does not mean that national rates of taxation will be set at 15%. Countries will be free to set their own rates. The USA will have a corporate rate of 28% close to Australia’s 30%. However, it means that companies like Facebook and Amazon will pay a minimum of 15% of their profit in



tax regardless of where they are domiciled. Eventually the OECD countries will adopt the new agreement and over time they will probably move to harmonise their tax systems to eliminate tax sorting.

Australia will receive a lot of attention at the G7 meeting because of its success in dealing with the pandemic and the strength of the economic recovery. The prime minister can use all the plaudits he can get at the moment, given the dint his reputation has taken at home, where anything short of perfection is deemed a failure.

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