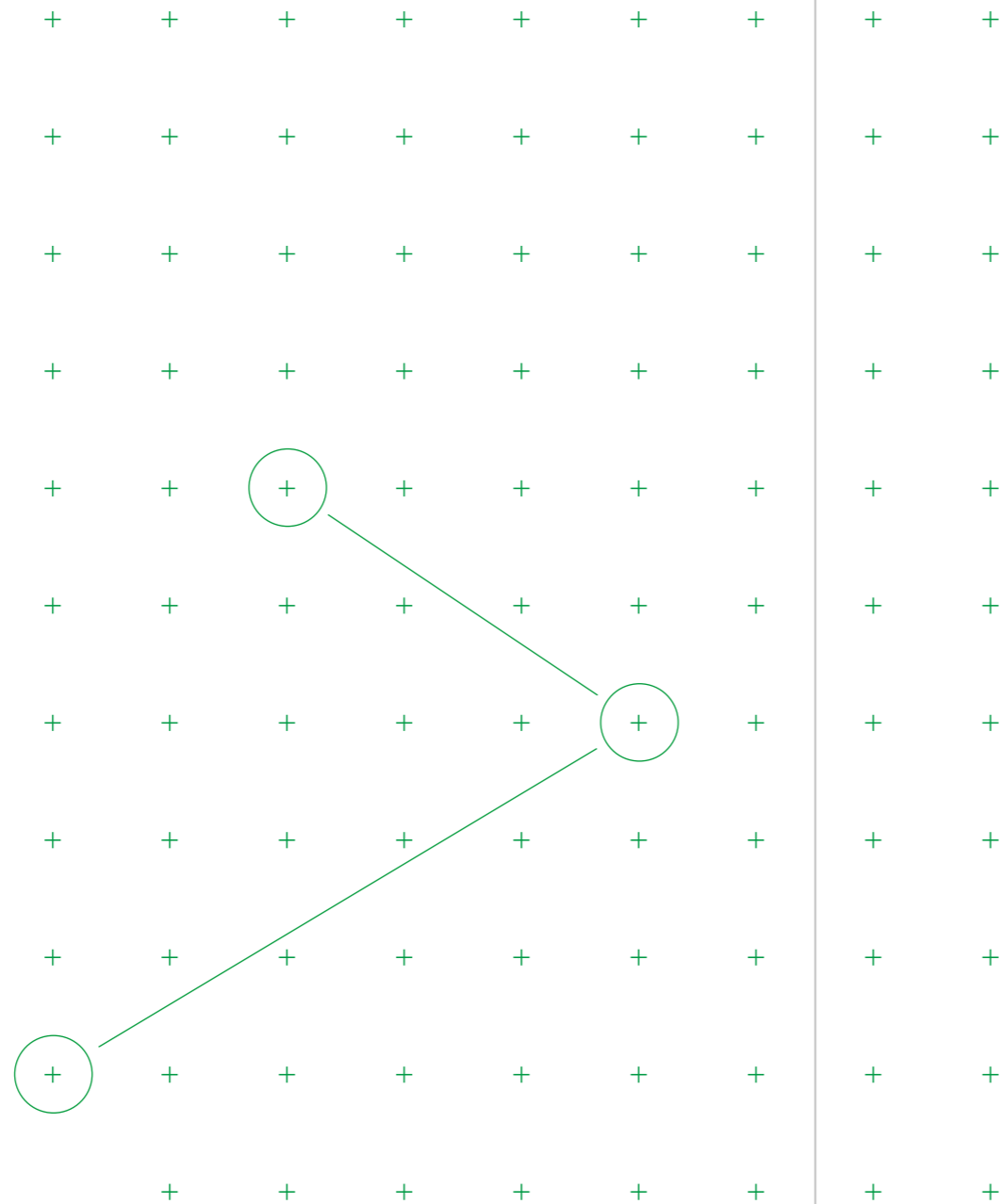




# Contents

The *Building the Lucky Country* series has been developed to prompt debate and conversations across business, industry associations, government and the media on issues facing Australia.



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Scan the QR code to explore the interactive website and dive into the data.

# As economies begin to bounce back from the COVID-19 pandemic, Australia has an opportunity to define its future.

**T**he decisions we make – the way we recover, the size of our ambition and the appetite for reform – will determine the future of Australia in a post-pandemic world, and how resilient, adaptable and connected we will be.

The growth wave we've ridden for half a century has turned the phrase 'the Lucky Country' into shorthand for our success. But this isn't guaranteed for the next 50 years.

Today, we live in a world surrounded by uncertainty, and the rulebook is being rewritten at a faster pace than ever before. Economic and business paradigms are undergoing structural shifts including technological advances, climate change, an aging demographic, shifting geopolitical tensions and (of course) a pandemic.

The signposts of change and disruption are everywhere. We see it in the pillars of our economy and society, including our trust in civic institutions and each other. We see this affecting the way we view the world, our business models, relationships with customers and each other, and how we live and work. Organisations and people have felt this acutely – yet we have no way of understanding, measuring and responding to the complexity in which we are operating.

These changes are multifaceted – fast, simultaneous and far-reaching – and often demand an integrated response.

At the heart of *Australia remade: A country fit for the age of disruption* is a new way to make sense of change, see our true potential and take the necessary steps to shape a more **economically sophisticated** Australia.

We have many of the building blocks to make this a reality: access to strategic minerals, renewable assets, proximity to the growth engine of Asia, successful agriculture exports and good education and health infrastructure. Moreover, we boast social stability, a transparent and robust legal system and a well-functioning democracy. But we need to move beyond these foundations and target the areas where tomorrow's opportunities lie.

Our report uses economic complexity to provide insight into these opportunities. Despite the name, economic complexity is not about things being more complicated. Instead, it's about **understanding and increasing the levels of sophistication in an economy**. It allows us to better understand the importance of connections and the strength of those relationships; the value of systems for businesses and our economy; and that our strengths can be inherently fragile. For Australia, becoming more sophisticated will help us to transform and compete on the global stage.

## A country fit for disruption

When Donald Horne first released his book *The Lucky Country* in 1964, he was pointing out that Australia's prosperity was largely due to its inheritance of British habits and manufacturing know-how. He was doubtful that Australia deserved its luck and argued it would run out if Australia failed to lift its game.

Fast forward to 2021 and the intention of the title phrase still holds true. While Australia's economic dependence has pivoted from Britain to China, it remains a case of remarkably good luck that Australia's economic performance has been so strong, particularly during the pandemic.

Australia has reached a critical point. The impact of a year of lost schooling, displaced workers, job insecurity and disconnection will play out for many years to come. Coinciding with existing waves of disruption like climate and technological change, the pandemic has rendered the world more uncertain than ever.

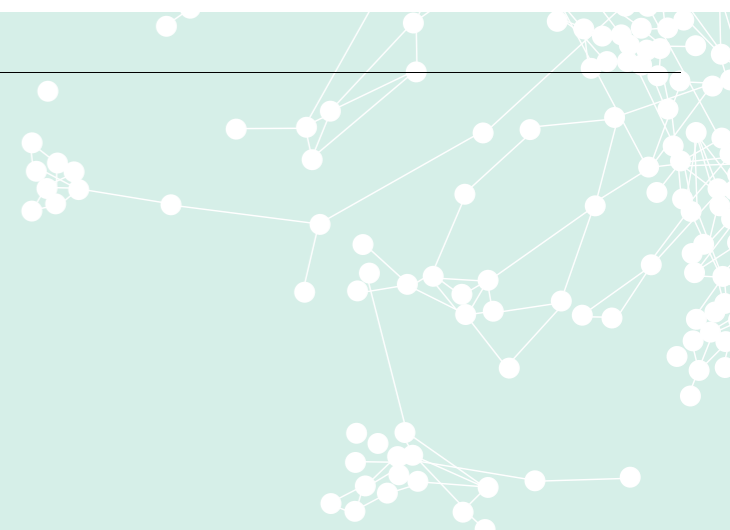
**For Australia to build a country fit for the age of disruption**, we need to meet the challenges of disruption head on. The antidote to uncertainty is not the predictability that comes from rigidity and uniformity or the tried and true of the past – it's having the resilience to innovate, adapt and thrive. By embracing dynamism, we can navigate changing circumstances and continue to prosper.

This is as true at the individual level as it is for businesses, institutions and our economy.

**For Australia to build a country fit for growth**, we need to recognise we are part of a complex global economy full of ideas and solutions, wants and needs, and opportunities and challenges. No business, industry or country works in isolation. It takes a joined-up or ecosystem view to identify where to move next.

**For Australia to build a country fit for the future**, we need to elevate our ambitions above natural resources, agriculture and tourism – often referred to as our 'rocks, crops and cameras'. We need to increase our appetite for risk and support it by investing in the capabilities that will drive our future prosperity.

Australia is out of position on what really matters in a world that's more interconnected and moving at a faster pace – where the ecosystems we play in, and how we play in them, matter more than ever. Our analysis shows we lack both economic complexity and the systems that allow us to respond to change, such as innovation and a risk-intelligent entrepreneurial culture. We are not as connected in the global trade and geopolitical system as we should be to take advantage of the changing environment. And this puts our future prosperity at risk.





Derived from our interactions with business and community leaders and our economic research, our report offers a strategic lens to view Australia's current challenges – a framework for policy makers and organisations to build resilience and a vision for the economic future we must create together.

This includes:

- 1. **The Economic Sophistication Index:** a new economic lens through which to view our economy
- 2. **Critical ecosystems:** areas of opportunity unique to Australia to spur our next growth wave
- 3. **The Resilience Framework:** a tool which considers four levers – preparedness, innovation, capabilities and connections – to equip organisations to become more resilient and adaptable, absorb and adjust to shocks, and make the most of opportunities from future disruption.

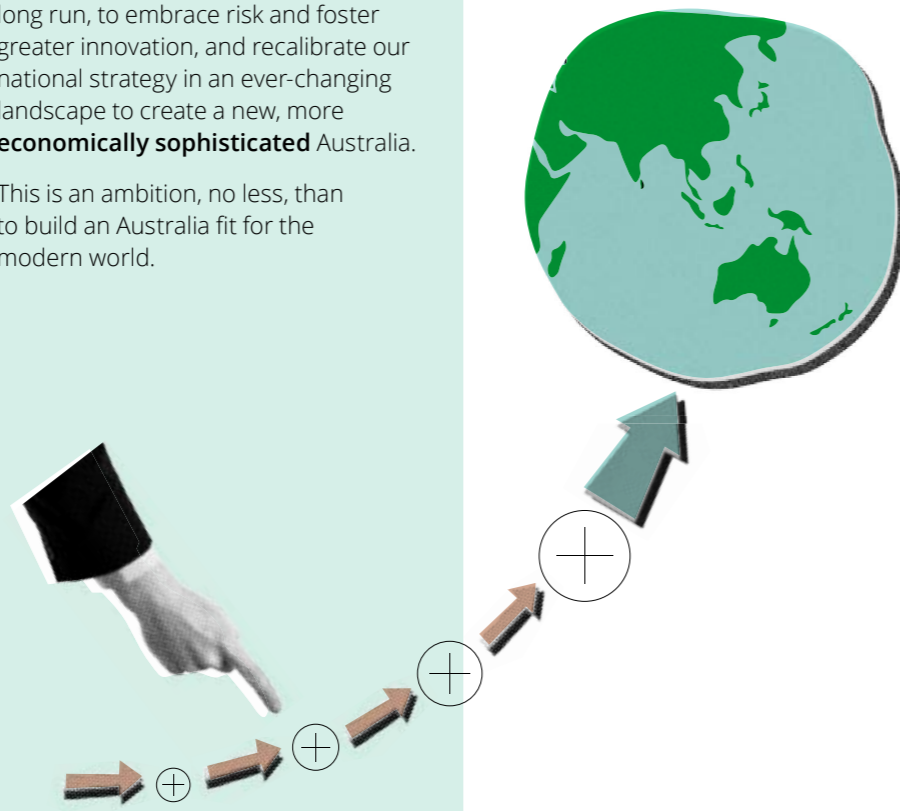
For business leaders, communities and policy makers, understanding structural change and how we make sense of a seemingly more fragmented world – which we no longer recognise and feels increasingly less likely to return to 'normal' – is more important than ever.

To have a future-ready economy, Australia needs a national mindset focused on building resilience: being prepared for change, fostering

innovation and diversity, and developing new and adaptable capabilities. Our connectedness as a nation does not need to be solely a function of geography and history. It is our challenge, and our imperative, to find unique and differentiated ways to contribute to the global economy by leading in critical growth domains.

Out of uncertainty and volatility comes the opportunity for Australia to shape a new future. This will require us to eschew short-termism in favour of the long run, to embrace risk and foster greater innovation, and recalibrate our national strategy in an ever-changing landscape to create a new, more **economically sophisticated** Australia.

This is an ambition, no less, than to build an Australia fit for the modern world.



+ **It is our challenge,** and our imperative, to find unique and differentiated ways to contribute to the global economy.





# Beyond the Lucky Country

Australia has ridden a growth wave for half a century – but it’s coming to an end. The task we are faced with now is how to create a new wave of economic growth. How do we move beyond the Lucky Country?

**W**hat we were experiencing before the pandemic, and will continue to experience after it, is multidimensional change as the economy tries to simultaneously reconcile the impacts of globalisation, technological disruption and environmental challenges.

When an economy is in a growth phase, as the Australian economy has been, everything is okay – until it isn’t. When it becomes noisy and disruptive, things start to break down and a framework based on increased adaptability and building shock absorbers is necessary to move the economy to new growth.

At crossroads like these, there is turbulence, chaos and uncertainty (Figure 1). To find new growth trajectories requires diversification as well as inventiveness. Without this, an economy won’t be able to adapt quickly and absorb shocks.

This is what resilience looks like.

## Forces of change

Even before 2020, the global economic landscape was one of constant change due to powerful global and local forces, including:

- Growth in Asia shifting the demand for what the world has to offer and, through new-found economic power, altering the geopolitical landscape across the world
- Demographic shifts occurring before our eyes
- The unstoppable march of urbanisation
- Ubiquitous technology and innovation
- The breakdown of trust in domestic and global institutions and relationships
- Pressures and damages caused by climate change and the shift towards decarbonisation.

As a consequence, businesses face challenges on multiple fronts, including:

- Business models being turned upside down by technology-empowered consumers demanding greater personalisation
- Blurring lines between producers and consumers, heralding the age of co-design, co-creation and co-production
- Platform technologies undermining traditional investment models and shifting barriers to entry

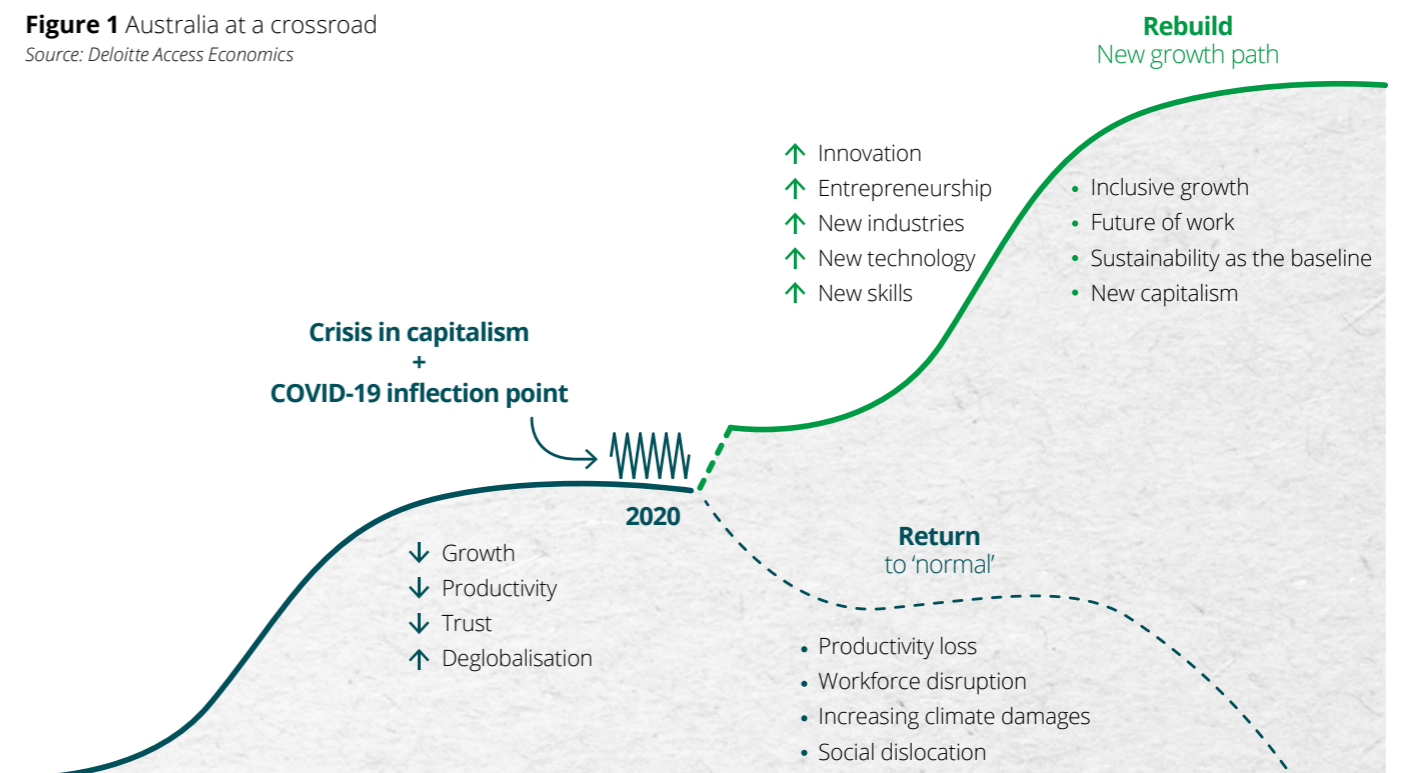
- Increased expectations of social corporate responsibility and shareholder value, which can be bewildering for corporate executives as they navigate difficult societal issues
- The rise of new generations of workers with different expectations, which is throwing talent systems into turmoil and driving new forms of communications and management
- Regulators and policy makers playing catch-up with innovations such as AI, introducing a new form of uncertainty into the market.



How do we move beyond the Lucky Country?

**Figure 1** Australia at a crossroad

Source: Deloitte Access Economics





# A new economic lens

**T**raditional economics is built on the assumption that the world is an ordered place which moves in a predictable pattern. But we know this isn't the case: people don't always act rationally, the landscape of the economy is constantly evolving and we're increasingly facing new disruptions.

Contrary to the mechanistic and incremental formulae that sit behind traditional economic models, our economic and social structures are inherently complex adaptive systems. They are dynamic and disruptive: our society grows and prospers by innovating and adapting to ever-changing circumstances.

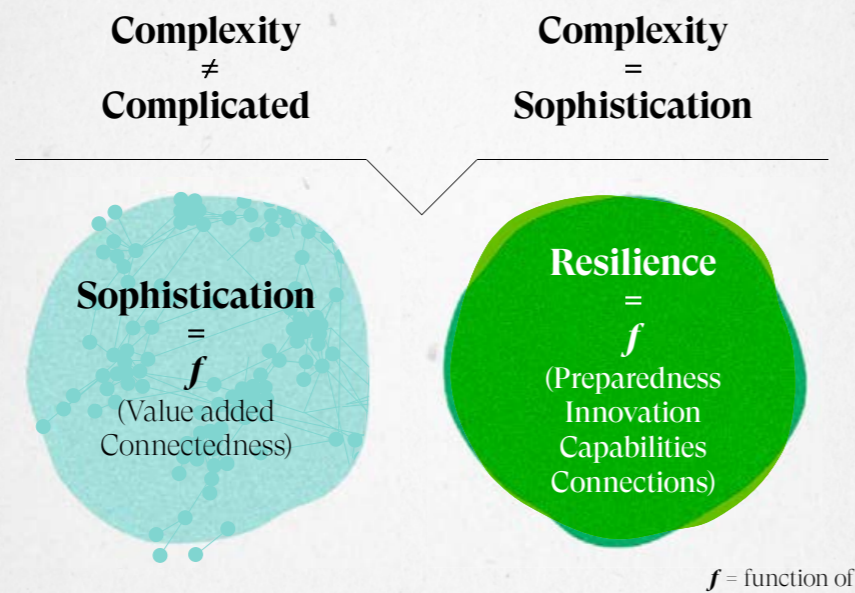
Viewing the economy through our traditional lens comes at a price. It filters out the exploration and creation which are necessary for the growth and development of an economy over time.

We're facing new challenges which are inherently complex. This means we need a new lens, new tools and new methods to solve them.

## Looking at complexity

Complexity economics provides this framework. Despite the name, economic complexity is not about things being more complicated. Instead, it's about understanding and increasing the levels of sophistication in an economy. For Australia, becoming more sophisticated will help us to transform and compete on the global stage.

To make sense of the world, we need a new set of equations for the economy:



A complex economy comes from leveraging the capabilities instilled in its productive structure, the information embedded in its networks, and the adaptive ability and resilience that comes from both.

We use economic complexity to analyse the economies of countries across the globe. In doing so, we can determine how sophisticated these economies are and how they can improve their potential for growth.

To determine how sophisticated an economy is, we look at two measures: the *value added* to the goods and services currently produced, and how

well *connected* the industries that make these products and services are in the global supply chain.

**Value add** refers to improvements in a country's production ability which increase the return on their investment. We can increase value add by improving how efficiently we produce goods or services through upskilling, investment or innovation, or by moving into industries where we have a competitive advantage.



**We're facing new challenges** which are inherently complex. This means we need a new lens, new tools and new methods to solve them.

## A closer look at our measure: Value add

The Economic Sophistication Index captures value add in global trade. The goods and services traded around the world today are comprised of many inputs from various countries, as illustrated in the example of the global value chain for steel products (Figure 2).

In fact, about 70% of international trade involves global value chains as services, raw materials, parts and components cross borders – often numerous times. Using this measure,

we are able to better understand a country's productive capability in adding value to global value chains. For example, Australia's integration with global value chains is still largely tied to and defined by our resources and geography.

Australia's relatively lower value add, which is discussed later in the report, stems largely from our reliance on less complex economic activities such as raw commodity production and associated manufacturing.

**Figure 2** Example of global value chain for steel products  
Source: Deloitte Access Economics (2021); OECD (2021) *Global value chains and trade*





## A new economic lens



**Connectedness** as a measure infers the quality, adaptability and resilience of a country's networks. Connectedness looks at how embedded a country is within networks in the global economy – both in terms of the number of connections and how strong they are.

A country with stronger connectedness has a greater diversity of production, markets and industries, and more connections to strong value chains within the global network. Building connections allows economies to pivot as shocks hit or market dynamics change over time. We can strengthen our connections by exposing ourselves to global flows of people, knowledge and information to become more diverse and adaptable.



Watch Deloitte Access Economics Director Kelly Heaton talk about [unpacking economic complexity](#)

## A closer look at our measure: Connectedness



**Figure 3** Example of social connectedness  
Source: Deloitte Access Economics

The Economic Sophistication Index captures connectedness across industries and global economies.

Connectedness is used to measure the level of influence of a connection within a network. It can identify which industries or countries have a wide-reaching influence within the global economy.

A good analogy for connectedness is our social connections as individuals (Figure 3).

For example, how connected are you to an important influencer on LinkedIn? Are you directly connected with this person and therefore well embedded in this sphere of influence? Do you have a mutual connection who could invite you into it?

The more closely connected you are to important influencers, the more impact you can have in a network.



# What does this mean for Australia?

The Australian economy has changed over the past 50 years, growing in both scope and scale. We have performed well over this time. Impacts from global and domestic shocks have been minimal and our bank account has kept on growing. But success breeds complacency.

China's growth and relentless demand for our natural resources created a tailwind that boosted Australia's economy for decades. Put simply, we have been lucky. Having been deliberate and strategic in opening connections with China in the early to mid-1970s, we've reaped the rewards, but also sat on our laurels. Our economy has become dependent on the export revenue flow which is now being disrupted by the geopolitical winds of change reshaping the global landscape.

And with half a century of hindsight, it's of little surprise that we have an economy characterised by low manufacturing capabilities and missed opportunities. We have not built the capabilities or structural foundations required for a diversified, resilient economy.

The Economic Sophistication Index (Chart 1) makes it clear: ranked 37<sup>th</sup> of 63 countries, Australia's prosperity has come at the cost of investing

in and enhancing the productive and adaptable capabilities in our economy. Our lower value add and weaker connectedness with the global economy compared to our high-income peers (such as the United Kingdom and the United States) is testament to this. In particular, Australia's trade connections are not as strong or diverse as they should be, and this is driving our significantly lower economic sophistication.

Countries with a high rank on the Economic Sophistication Index are those that perform well across both value add and connectedness. These countries can be thought of as more resilient; the diversification and sophistication of production channels minimises the risk of shocks and maximises economic growth. Countries with favourable economic sophistication scores are likely to experience higher per capita output growth and are more resilient to economic shocks.

For instance, Germany, which sits at the top of the index, is the world's most sophisticated economy with high levels of both value add and connectedness. It is focused on investing and innovating in industries with greater complexity dividends – such as finance, business services and wholesale and retail trade – and it plays at the centre of the global economy. Germany is at the forefront of the productive capabilities that will be foundational in future global value chains including technology, human capital and education.

Countries with a high rank on the Economic Sophistication Index are those that perform well across both value add and connectedness. These countries can be thought of as more resilient; the diversification and sophistication of their production channels minimise the risk of shocks and maximise economic growth.

[Deep dive into the data online](#)

# 37<sup>th</sup>

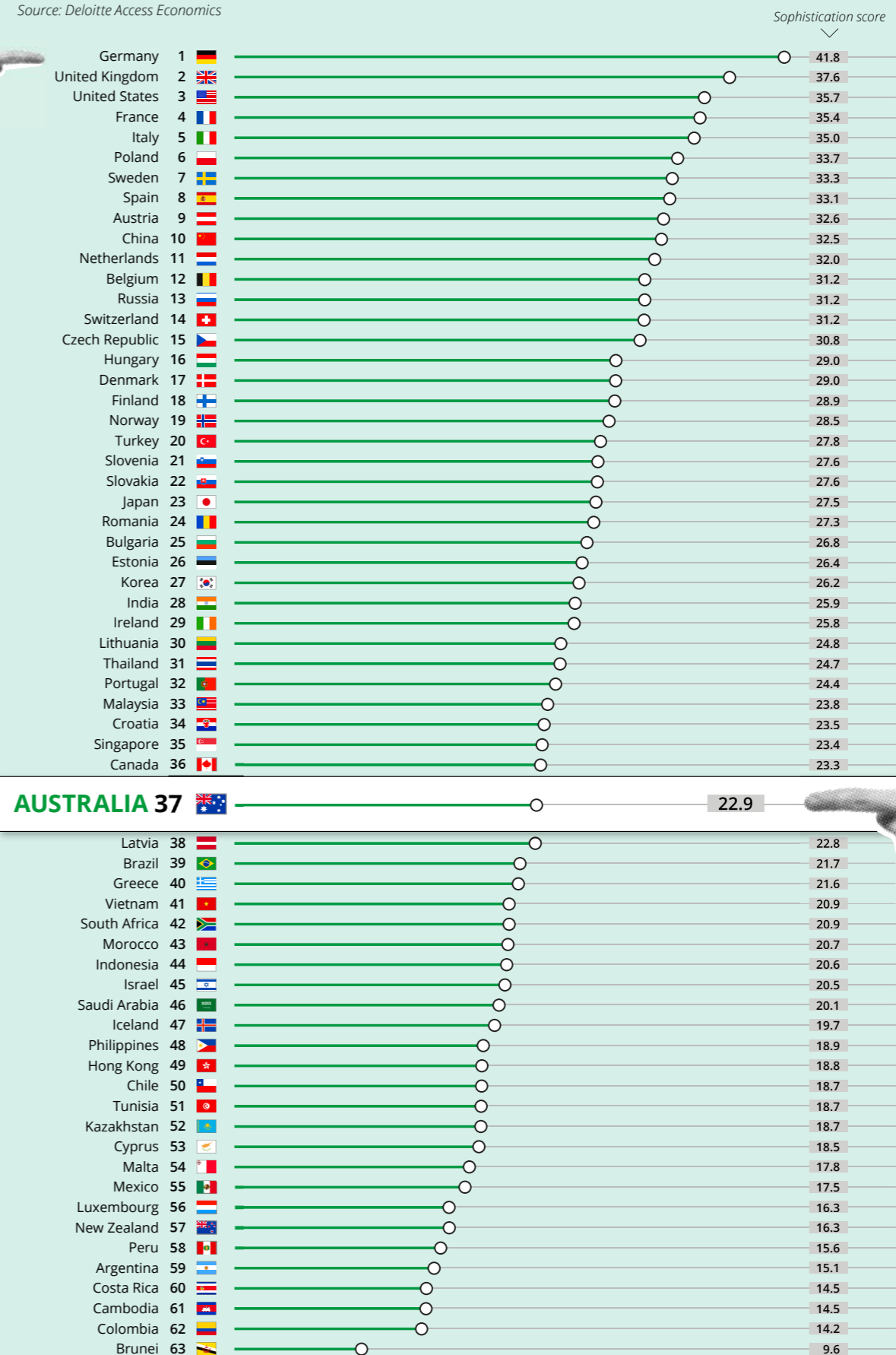
## Australian ranking for sophistication

Compare this to Canada, which has a similar economic profile to Australia: it is a high-income country which primarily exports resources, in this case crude petroleum. Without a focus on improving its value add or connectedness in global markets, Canada has seen its index ranking decline since 2005 and currently sits at 36<sup>th</sup>. To improve, it needs to increase in both value add and connectedness.

Looking to our region, Indonesia is ranked 44<sup>th</sup> on the index and faces a number of economic challenges. Indonesia relies heavily on agriculture for exports which makes it vulnerable to food insecurity and food price inflation. Investment in this sector has come in the form of subsidies rather than new technologies, limiting Indonesia's ability to increase its value add.

Chart 1 The Economic Sophistication Index

Source: Deloitte Access Economics



# Sophistication Index



## What does this mean for Australia?

### Insights on Australia's economic sophistication

Australia has many comparative and competitive advantages that we can amplify and build on to create a more diverse, sustainable and connected economy. But we need to move beyond these foundations to build a more prosperous future.

The Economic Sophistication Index provides five key insights on the Australian economy:



**1** We're not as successful an economy as we think we are



**2** We've relied on luck and it's created complacency



**3** We've neglected sectors with the greatest future potential



**4** We're not well connected to the rest of the world



**5** We're at risk of the 'tyranny of distance' again

#### 1. We're not as successful an economy as we think we are

Looking only at the headline statistics, Australia has a successful economy. In terms of GDP per capita, we sit alongside the countries we would typically expect – the United States, Denmark, Singapore, Sweden and the Netherlands.

The natural resources, agriculture and tourism industries have brought about great wealth for our economy over the past three decades. They underpin our geographically dispersed population, exports and labour market, as well as other industries such as construction, transport, manufacturing and retail trade.

But if we dig below these headline measures, **Australia's economy is less robust than we think.**

Our most successful industries are not our most sophisticated. Nearly 60% of Australian production occurs at a sophistication level lower than the global average. By not focusing on the areas in the economy which can bring us continuing value, we are risking our future prosperity.

In contrast, the countries at the top of the index – Western European economies and the United States – are service economies. They have strong value add in production and are highly connected to global networks.

#### 2. We've relied on luck and it's created complacency

Australia's success has been driven partly by good luck and partly by good policy. Recently, the global pandemic could have spelled the end of Australia's sustained economic performance. But a combination of a timely policy response and 'luck' – the strength of iron ore prices and China's demand – has meant Australia has fared better than anticipated.

But our complacency for letting the good times roll has come at the cost of economic sophistication and resilience. By relying on our luck and taking China's relentless demand as a given, **our economy is increasingly fragile.**

#### 3. We've neglected sectors with the greatest future potential

While Australia has been focusing its efforts in areas where we make money, global networks and value chains have been evolving and growing more knowledge intensive around us. Within many industries, value creation and value add is shifting to upstream activities such as R&D and design, and to downstream activities such as distribution, marketing and after-sales services. In some industries, these activities are adding more value to goods and services than the production process.

The best performing countries focus on areas of their economic activity which deliver greater value add and

**Figure 4** Global economic network map

Source: Deloitte Access Economics

- Australia
- China
- Germany
- United States
- Rest of world

Dots represent industries in each country included in this analysis. Lines between the dots represent the connections between these industries (based on trade in value added).

higher sophistication. In Australia, we've focused our efforts on mining and tourism, which are not our most complex industries nor where the greatest share of our production sits. However, these *are* the areas where the money has been flowing from. The cost of this is that we've traded income for economic sophistication.

#### 4. We're not well connected to the rest of the world

While we have limited connections to the global economy, the ones we do have are strong. Australia's largest export sectors, mining and resources, lead directly into central value chains in the global network.

But sitting on the periphery of the global network, we have too few connections to ensure the overall resilience of the Australian economy – regardless of how strong they are. The global economic network map (Figure 4) shows that countries like the United States, China and Germany are highly integrated and embedded within country networks (represented

by colours) and industry networks (represented by the dots).

This is in stark contrast to Australia, which sits on the fringe of global networks. We have very few industries connected to global networks and very few connections to other countries.

#### 5. We're at risk of the 'tyranny of distance' again

Globalisation benefited Australia by opening our access to global trade markets. But equally, it highlighted how expensive trade is for us due to our remoteness – the tyranny of distance.

A shift to digital in the trade of goods and services and our proximity to the economic growth in Asia saw much of this disadvantage dissipate. But then COVID-19 hit. Deglobalisation and nationalism has once again reinforced Australia's isolation.

Australia's geographic isolation from world markets, and our lack of attention paid to the now burgeoning region of Asia, hampers our participation in global value chains.



## What does this mean for Australia?

### Building our resilience

For Australia to build a country fit for disruption, we need to meet the challenges of that disruption head on.

We need to move from complacency – a result of short-term thinking – and static success, to focus on building our resilience. We need to shift our understanding from linear supply chains and narrowly bounded industries to dynamic networks based on shared capabilities and the power of ecosystems.

There are two ways we can achieve this:

- 1. Improving our connections** across industries and adjacencies within Australia and with other countries across the globe. By working together on areas of future growth, we can ensure Australia's economy is sustainable and globally connected.
- 2. Building a national mindset** which is prepared and ready for change, fosters innovation and diversity, and builds new and adaptable skills. The four levers of our resilience framework (Figure 5 – page 22) provide a way for leaders to make this a reality in their organisations.

To succeed, we must do this together. Our country is the sum of the institutions, organisations, and people within it, so what we all do is important. We can't leave it to others and hope for the best.



### An entrepreneurial spirit is key to creating a future-focused economy

Navigating uncertainty and an ever-changing landscape requires greater diversification and investment in areas like innovation, experimentation, risk-taking, skills and adaptive know-how across industries and the workforce.

## Unlocking opportunity

Increasingly, as we better understand social behaviour and the underlying connectedness of our economy and society, we recognise that cooperation matters just as much as competition.

In trying to refocus our organisations, systems and economy on innovation and resilience, ecosystems are increasingly the object of analysis and strategy rather than the narrowly conceived balance sheet of an entity. That is, to understand your business, you need to understand the businesses around you.

Ecosystems are as relevant for entire industries as they are for individual businesses. In **exploring ecosystems**, our analysis considered the extent to which they can help us to:

- 1. Fill gaps in the market:** growth can be achieved by drawing on existing strengths to fill gaps in the market which emerge through better exploration and understanding of market demand.
- 2. Play into a new game:** investing in building new competitive advantages will move Australia up the sophistication curve by adding value in our supply chains and extending the connections we have in the market.
- 3. Solve for market problems and make an impact:** by using our human capital to solve existing and emerging market problems, we can create new offerings that can have a lasting impact on the market.

For individuals, businesses and economies, the idea of building resilience extends our thinking beyond just ourselves. By definition, it brings us into contact with others – collaborations, partnerships and competition.

### Our analysis points to seven key ecosystems which will matter for Australia in the years ahead.

These build on our existing industry strengths, create new competitive advantage and produce what the world needs as it responds to the same structural shifts driving fundamental change here at home.

Increasing our participation in and contribution to each of these ecosystems will propel Australia further up the sophistication curve, making us fitter and better able to navigate the challenges and opportunities which lie ahead.

Some of these ecosystems will allow us to amplify our advantages and build upon the foundations of natural resources, agriculture and tourism. Others will move us beyond these to be more relevant and connected, and to find new opportunities for future growth.

This isn't about picking winning sectors or focusing on specific industries. It's about drawing on Australia's unique strengths, resources and capabilities to meet global demands to:

- Feed the world
- Decarbonise the world
- Shape the future of health
- Look to the sky (and beyond)
- Manufacture the future
- Satisfy the senses
- Service the world's businesses.

**Organisations should ask:**  
What role do we want to play in shaping a new, more economically sophisticated Australia?



## Unlocking opportunity



## Feed the world

The demand for Australian food is strong, driven by the quality of our products. Yet, the core industries involved in Australia's food production – agriculture, forestry and fishing – are among our least sophisticated, with low value add compared to global competitors and limited export markets.

To unlock more value, we need to challenge the traditional linear supply chain and think in a more circular way about primary inputs, knowledge, innovation and technologies.

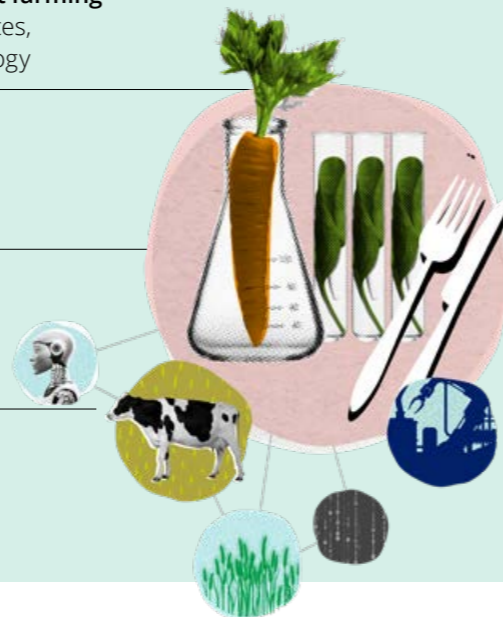
### To bring this to life, Australia must:

Understand end consumer expectations, particularly in relation to the **personalisation of wants and needs**, to inform capital investment and production processes

Utilise novel technologies across sectors and innovation across production processes to drive **smart farming** in reaction to changing consumer preferences, environmental challenges and new technology

Move away from relying on dominant single markets and **connect to new markets** (e.g., Southeast Asia) with a high demand for quality nutrition and luxury products

Increase resilience to climate variability by using technologies, new processes, **scenarios and data analytics** to inform decisions.



## Decarbonise the world

With our competitive advantage in rich natural resources, technologies, and energy, Australia can take part in the move to global decarbonisation. We have an opportunity to climb the Economic Sophistication Index by producing new sustainable energy as well as using it in the manufacture of goods.



### To bring this to life, Australia must:

Align energy and industrial policy settings and regulation across all levels of government and industry, with a specific focus on **long-term transformation**

Focus on **new energy** generation, the production of minerals processing, the manufacture of metals, abatement technologies and the creation of markets for carbon farming and offsets

Develop technology that accelerates a transition from traditional energy generation and distribution to drive **networked energy systems** (more localised energy generation) and new market development

Drive the development and attraction of **green finance** to power investment in all industries and build better connections between fintech and energy tech

**Partner with other economies** that are seeking to invest in green technologies, but lack Australia's natural advantages (e.g., green hydrogen).

## Shape the future of health

The focus of health is shifting from treatment to wellness using digital and virtual technology as enablers. Australia can create new value by turning our world-class health research into implementable health and wellbeing solutions and by adopting new technology to improve everyone's health.

Unlocking this value requires new relationships between our health system, universities, entrepreneurs and fund managers, and global collaborations across manufacturing, technology and research.

### To bring this to life, Australia must:

Drive a focus on **world-class, innovative health education and research**

Invest in digital platforms, analytics and AI to drive **personalisation of health care treatment and outcomes along with new payment and operating models**

Move from a reactive to **preventative health** model utilising technology and data to improve virtual health care access and early diagnosis and intervention

Invest in building world-class health **manufacturing capabilities** in Australia with a clear focus on **commercialising research** through the use of venture capital strategies

Implement population health strategies underpinned by **data sharing and interoperability** to make Australia *the* home for clinical trials and research.





## Unlocking opportunity

### Look to the sky (and beyond)

Australia is globally competitive in the areas of the space industry we have chosen to play in, with a strong emerging track record. But to mature this ecosystem, Australia needs to grow its capabilities from niche research and manufacturing to the delivery of end-to-end products and services (e.g., moving from specific satellite components to Australian-made satellites launched on Australian rockets).

#### To bring this to life, Australia must:

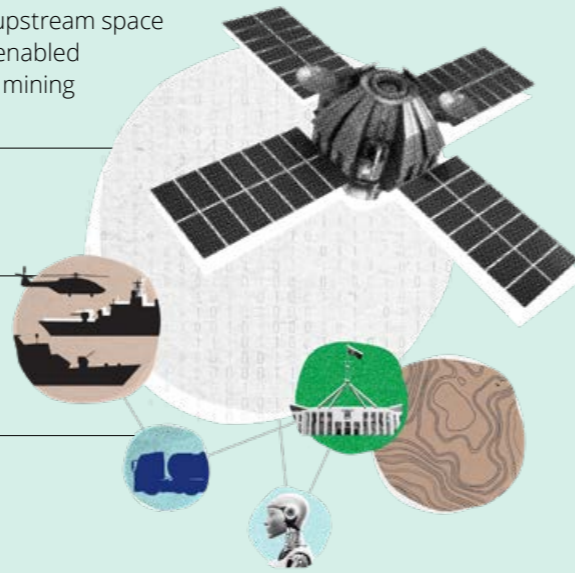
**Collaborate locally to compete globally**, developing the critical mass and demonstrated flight experience required to supply the global market

Focus on where Australia can **add the most value** in the global ecosystem, particularly in the manufacture and launch of satellites and rockets (and associated components)

**Increase connections** between the upstream space industry and the end users of space-enabled data such as agriculture, aviation and mining to increase economic dividends

Capitalise on existing industries and **commercial opportunities** such as security and defence expenditure

Commercialise the significant research undertaken in universities to **create new offerings** and fill gaps in the local supply chain.



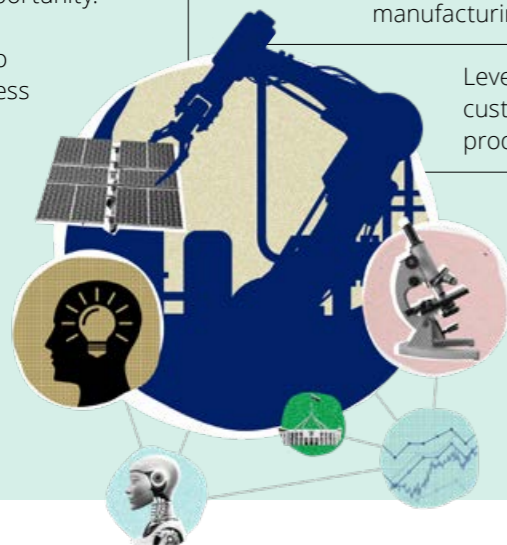
#### To bring this to life, Australia must:

Develop and **connect manufacturing hubs** with Australia's strengths in resources, green energy, agriculture, health and space to drive ecosystem development

Focus on **scaling start-ups** and **small businesses** and connecting them to global supply chains

Drive new **product innovations** through advanced manufacturing technologies such as 3D printing

Leverage **data and feedback systems** to drive customer insights into faster and more focused product and services development.



### Manufacture the future

To play a greater role in global manufacturing, Australia should have a clear focus on moving up the value chain by connecting advanced manufacturing with the areas of greatest economic opportunity. To do this, Australian manufacturers need to improve competitiveness and sophistication, scale up and build more resilient supply chains.

To find out more, visit our website: [deloitte.com/AU/AustraliaRemade](https://deloitte.com/AU/AustraliaRemade)



### Satisfy the senses

There is no ecosystem more agile and ever-changing than one that follows the demands of consumers, including travel, fashion, restaurants and cafés, hotels, retail, arts and cultural experiences, and on-demand content. Australian organisations need to continue to be responsive and innovative by co-designing products, services and experiences with consumers seeking to satisfy their senses at home and away.

#### To bring this to life, Australia must:

Use digital platforms to build feedback loops with consumers to gather insights, **innovate**, and **address their wants, needs and expectations**

Use technology to build a better understanding of the customer and **provide personalisation** while maintaining customer privacy

Meet **customer expectations** on ethical trading, sourcing and sustainability

Embrace 'phygital' – **connected customer experiences** across both physical and digital platforms.

### Service the world's businesses

A significant opportunity exists to export B2B services such as engineering, telecommunications, professional services and financial and insurance services to markets in our region. More economically sophisticated countries such as the United Kingdom and the United States have done this to great effect. Advances in virtual and digital technology create opportunities for Australian companies to export their know-how to meet the increasingly sophisticated needs of clients with tailored services, both in Australia and abroad.

#### To bring this to life, Australia must:

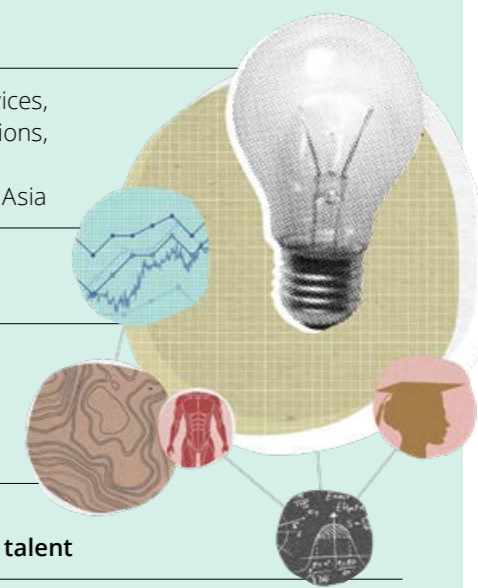
Capitalise on its strengths in professional services, technical services, insurance, telecommunications, and information technology and **sell these services into the global market**, particularly Asia

Double down and **commercialise intellectual property**

Rethink organisational design for greater **agility** and reinvent the value propositions for a highly mobile knowledge-economy workforce

**Invest** in the workforce, internal capabilities and employee experience to **lead the war on talent**

Ensure **'virtual work'** done remotely is considered in future tax treaties.





# Complexity economics in action

The pandemic has exposed Australia's burning platform for change and transformation – and it starts in each and every organisation. We know the sophistication of an economy drives resilience and growth. But how do we build this in our businesses?

The pandemic has taught us to think about how prepared we are for change and disruption.

Through a focus on **preparedness, innovation, capabilities and connections**, boards and executives can consider:

- The global and local scenarios which help define longer-term goals and illuminate new sources of value
- The innovation and risk appetite required to create the new products and services the market will need

- Developing capabilities to facilitate change and keep the organisation future ready
- The importance of partnerships as the cornerstone of a new operating model and market presence.

In doing so, boards and executives will be able to build greater resilience into their organisations through the bumpy ride of volatility and uncertainty.

Our Resilience Framework (Figure 5) provides leaders with four levers to drive decision-making cycles:

## Preparedness

Information is power when uncertainty rules, so a better sensing of the world matters. Boards and executives should use scenario planning and analysis to prepare for disruption, be vigilant against upcoming risks and search for new opportunities. Doing so can help leaders rethink the fundamentals of their organisation and develop a long-term view of their position in the market.

Organisations can bring greater sophistication to strategy development and execution through running and re-running simulations to help understand the dynamics at play.

The disruption of recent times has shown that while the future can't be predicted, it can be prepared for. It is possible to know which weak signals to look for and what capabilities and connections can help build resilience.

## Innovation

Being more resilient requires a reorientation of incentives towards innovation and diversity. If change abounds, risk appetite comes into focus. It is important to assess the capacity and capability of your organisation to innovate, the incentives that support this, and the mindset of your leaders.



Too often, the incentives in economies and businesses are backward looking – solving a behaviour or problem of yesterday, instead of rewarding the innovation of tomorrow.

Leaders should assess their reward structures to ensure the organisational culture isn't risk averse or only focused on short-term goals.

Transformation is necessary to build resilience, so it's important to create an appetite for change and ensure the right flow of information across value chains to guide insightful decision making.

## Capabilities

Organisations need to become adaptive with new skills, systems and interactions to navigate uncertainty. They must also ensure that feedback loops across business units and workforce types, or between sales and strategy, can generate insights on new sources of emerging value and the capabilities required to capitalise on these. Organisations need to build an integrated set of capabilities that span talent, systems and processes, and leverage ecosystem partners.

Adaptable enterprises also put purpose and meaning at the core of what they do, especially in these volatile times. A key step for leaders is to focus on their core organisational mission and remove anything that pulls attention away from it.

## Connections

Across industries and sectors, supply chains are being disrupted and connections are being simultaneously broken, created and changed. Strong connections will be critical to achieving competitive advantage in the future.

Organisations will need to tap into the capabilities of their partners, alliances and talent beyond their own enterprise. And these ecosystem connections do not need to be located domestically. It's therefore important as leaders to build better connections: in supply chains, with and across adjacent sectors, across the globe, with research institutions and with other organisations. By doing so, organisations will be better able to mitigate risks and realise opportunities for new growth.

Figure 5 Resilience Framework  
Source: Deloitte



Central to our analysis is a view of the economy which is not static and changes over time. Combined with the imperfect information about our future, it is a truism that the future is ours to create.

It is central to growth theory that a combination of innovation, the knowledge and skills of the workforce and the investment in modern capital drive economic growth and productivity in the long run.

If our future is not preordained, sense-making and scenarios become critical operational devices for decision making – particularly when faced with uncertainty. These ideas underpin our Resilience Framework.



# Lessons on complexity

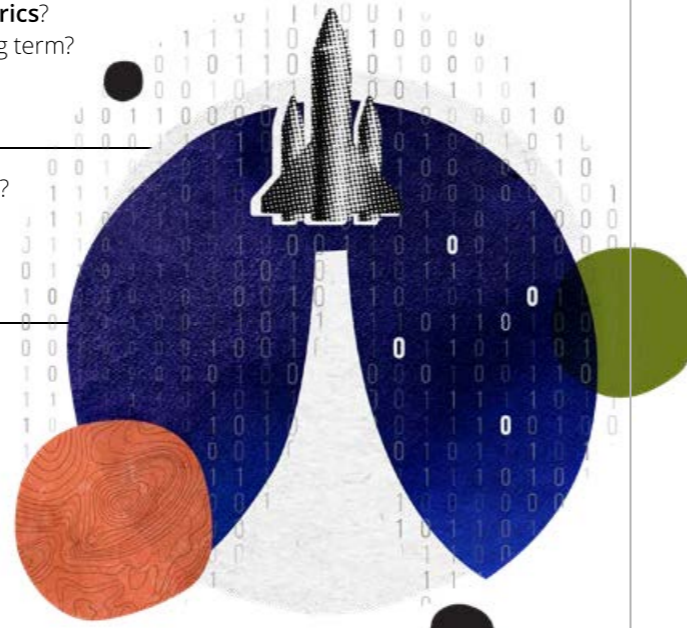
## Questions boards and executives can ask

### Preparedness – Better sensing

- 1 Is how we think about **strategy** too rigid or traditional? How does our **sensing system** operate and how does it inform decision making? Are we continually assessing and learning – and **adjusting our strategic choices** accordingly?
- 2 How have our **customers been disrupted**? Do we know how their expectations, tastes and preferences have changed or are likely to change?
- 3 Do we understand how disruption has accelerated **changes in the employer-worker relationship**? Are we ready for how it might evolve further? Do we understand our purpose and its importance to our employees? Are we considering the worker of the future, digital workers and work reinvention?
- 4 How well do we understand the needs of our **investors and shareholders**? Are underlying investment views shifting in our favour or against?

### Innovation – Right balance

- 5 How do we encourage **innovation from within** while accepting disruption from **outside**? Do we have the right incentives in place at an organisational, sector and whole of economy level? How robust are our business **performance metrics**? How dynamic are they? Do we have a performance view for the long term? Do we reward calculated risk-taking and **reward failure with learning** as well as success?
- 6 Are we innovating enough? Is our innovation focused and disciplined? Are we experimenting with **new business or operating models**? Are we innovating with our ecosystem rather than in isolation? Do we have an **organisational learning** culture or capability?



### Capabilities – At the cutting edge

- 7 How are we seeking to become an **adaptive organisation**? Are we shifting our operating model and management philosophy to one that supports enterprise agility? Are we hiring differently or more of the same? Are we encouraging **diversity of thinking** and **experimentation**?
- 8 In the face of constant change, is our **technology** play optimal? How can we use **new technologies** (such as AI) to transform our operations, create new sources of value or disrupt incumbents including ourselves? Are we investing enough in technology? Are we using these new technologies to stay ahead or just keep pace with the field?

### Connections – Richer relationships

- 9 Which **ecosystems** do we want to play a part in and for what purpose? How will we **connect into them** to unlock opportunity? Do we have connections with and across adjacent sectors? What are we doing with these connections to enhance our competitive advantage and create value? Are we playing a long game in our connections, **building relationships for 2030 and beyond**?
- 10 How is **volatility** and complacency playing out in our **supply chain**? Do we have the right relationships and are they strong, weak or simple? Do we have options or alternatives?

## Connect with us



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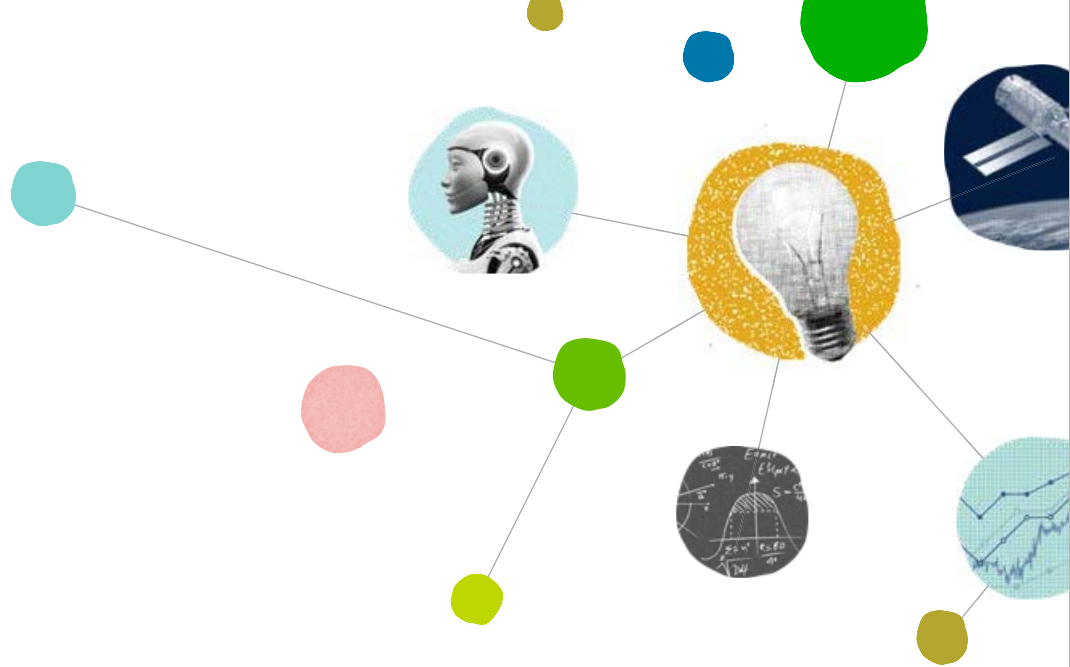
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## Creative story

In this edition of *Building the Lucky Country*, we use collage to bring the key themes of our report to life. The act of layering diverse elements reflects the complex world we live in today, while the tactile, humanistic quality of the art form highlights the role of people in shaping our future. After all, it's only by working together to grow our strengths, improve our skills and drive prosperity that we can truly build a Lucky Country.



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