

NSW 2040 Economic Blueprint

Investing in the state's
future





Foreword by the Treasurer

The Honourable Dominic Perrottet MP is Treasurer of New South Wales and charged NSW Chief Economist Stephen Walters with producing this Blueprint.

In a rapidly changing world, we can choose to innovate, challenge ourselves and take advantage of the many opportunities bestowed upon New South Wales. Or, we can sit back and leave our future to chance.

This is not a government which gambles with the responsibility of ensuring a better life for the people of New South Wales.

We have spent the best part of a decade re-building the state's capabilities. In the past year alone, we have opened the new Sydney Metro Northwest train line and the first section of the new WestConnex motorway, invested billions into improving and building roads, bridges, schools and hospitals in every corner of the state.

We have a further \$93 billion earmarked for infrastructure projects across the next four years. Vision fails without execution, but equally our vision for New South Wales must extend beyond simply finishing the next length of rail line or building the next school.

New infrastructure is important, but we need to take the longer-term view and ensure we are not just building physical bridges, but putting in place the planning, policy and framework which effectively form the building blocks to the future.

The dual pressures of dealing with the here and now and planning for the longer term could paralyse us if we let them. But that is not an option. We need to ensure that New South Wales stays a leader and is not a follower.

New South Wales will become Australia's first two trillion-dollar state, the clear first choice for business and industry, the first port of call and clear favourite for the majority of those who come to our shores.

While traditional industries such as mining and finance will remain important and continue to thrive, we must promote high-growth areas such as advanced manufacturing, tech-innovation, medicine, education and tourism, particularly from Asia.



New South Wales is already internationally recognised as a high-quality provider to the world and over the next two decades we will take this to the next level. Better regional and international transport links will allow us to export more of our world's-best products and services to the rapidly growing markets of China and India, as well as our well-established markets in Japan, the US and Europe.

New technology and infrastructure will allow regional New South Wales to have greater opportunities for skilled jobs and workers in industries more often confined to traditional city hubs.

As envisioned by the Greater Sydney Commission, our capital city will evolve, with three distinct centres based around the existing CBD, Parramatta and Western Sydney Airport. Wollongong and Newcastle will continue to grow with improved transport infrastructure and technological advances boosting economic opportunities.

We will have dedicated precincts of expertise across NSW which support emerging and growth industries and encourage innovation and investment. Our education and training sectors will need to adapt and change with a focus on ensuring we have life-long

training opportunities to ensure our skills match the jobs of the future.

We already are hard at work in important areas of reform that will shape the future. The NSW Review of Federal Financial Relations is looking at ways to improve the funding relationship between Canberra and New South Wales, with a final report due next year. The NSW Productivity Commissioner Peter Achterstraat recently released the first discussion paper focusing on the need to make us more competitive.

A final area of focus is to ensure the state has a global outlook. This is much more than being the first stop for tourists or default choice for international students. We must work diligently to bring the world to our doorstep and equally hard opening our door to the world, enhancing our trade and investment opportunities at every opportunity.

This Blueprint, prepared by NSW Chief Economist Stephen Walters, draws together many of the opportunities and challenges we face and will help us chart a course for our future. I thank Stephen for his important work and know that as this generation builds for the next, the Blueprint will help ensure we keep NSW ahead of the pack and the very best state in the country.

*The Honourable Dominic Perrottet MP
Treasurer
November 2019*

Executive summary and recommendations

This 2040 Blueprint sets the direction for New South Wales' continued economic success in a changing world, making recommendations about where we should focus our efforts.

The \$2 trillion economy

New South Wales has among the highest average household incomes in the nation and the lowest unemployment rate, a world leading service sector and negative net government debt.

We should be able to become Australia's first trillion-dollar state by 2030 and its **first \$2 trillion state after 2040** – and even sooner if we find and implement measures to improve our productivity.

First \$2 trillion state after 2040

Our 2040 aspirations

- We want a **high standard of living** for a **population** that is healthy, well-educated and skilled for high-income jobs of the future.
- Our **economy should be diversified** in favour of fast-growing industries and services and be expanding quickly enough to lift living standards.
- Our **five major urban centres** should be **vibrant and well-connected**, with modern infrastructure well-suited to our needs and a growing population.
- Our **regions should be productive and growing**, serviced by world-class infrastructure and transport links.
- We desire **innovative businesses and industries** of the future and a government that leaves a lighter footprint on private sector activity.
- Our **environment and biodiversity** should be **preserved for future generations** and our energy sources reliable and affordable, with enhanced water resilience across the State.
- **Government** should behave in a way that **encourages innovation**, particularly via procurement.

Five global megatrends will shape our next 20 years

Global forces will play a big role in New South Wales' next two decades and many of them will be positive.

Five stand out:

- Asia will be a much richer consumer with new tastes to which we can cater and new abilities as well.
- Our previous development efforts have placed the natural environment under stress and we will need to respond.
- Digital technologies, including new tools like artificial intelligence, will keep changing our lives and our work.
- Patterns of migration will help determine how quickly the population of the state ages.
- Rapid change risks bringing social problems that need to be addressed.

Likely industries of the future

Technology change and disruption will continue, but the experience of the past 20 years indicates that the economy and society will adapt and grow.

While there are no perfect predictors of future success, indicators can tell us which industries are more *likely* to grow over the next two decades.

Development of these industries should attract both global talent and global investment capital.

The industries singled out in this 2040 Blueprint are:

- Industries where New South Wales is already strong: finance and financial technology; mining; education; tourism and events; the arts.
- Industries that serve our domestic needs: cyber security; medical technology; waste management.
- Emerging industries: advanced manufacturing; food production and agricultural technology; aerospace and defence; space; hydrogen for fuel.

Seven levers will boost our performance

State governments have seven main policy levers to improve economic performance – our human capital, institutions, fiscal policy, infrastructure, innovation, natural resource policy and industry development abilities. Each has limits. But compared to the powers of national government, they may be growing more effective over time.

The full 2040 Blueprint recommendations are set out on the next page.

Recommendations

Aspiration: A two-trillion-dollar economy after 2040

IMMEDIATELY

- Support the Productivity Commissioner's examination of the state taxation system.
- Invest in the NSW Government's overseas presence to better promote 'Brand NSW'.

LONGER TERM

- Promote the state not just as a tourist destination but as a place to invest, do business and study.

Aspiration: Healthy, productive people

IMMEDIATELY

- Improve the performance of the vocational education and training system.

LONGER TERM

- Develop a responsive skilled migration list that is integrated with the national list.
- Undertake education reforms including those via the Gonski process, particularly to reward high-performing teachers.
- Invest in training and capability building to cut construction industry skill shortages.

Aspiration: Vibrant, well-connected cities

IMMEDIATELY

- Improve the ways the state plans long-term infrastructure.

Aspiration: Productive, vibrant regions

IMMEDIATELY

- Work with the Commonwealth Government to examine ways for new migrants to move to the regions.

LONGER TERM

- Better commercialise research in food, food technology and agricultural technology.
- Help regional businesses diversify and capitalise on growth in tourism.
- Improve freight networks in the regions.

Aspiration: Innovative, world-class businesses

IMMEDIATELY

- Work with the NSW Productivity Commissioner on problems related to planning, regulation and vocational education.
- Support the review of the state's research and development landscape.
- Establish an industry taskforce to encourage high-growth future industries.
- Release a Space Industry Development Strategy.
- Commit to long-term funded initiatives to encourage more advanced manufacturing.

LONGER TERM

- Establish research, development and commercialisation facilities in the Innovation Precincts.
- Help NSW Government bodies to pilot innovative solutions and share government data.
- Use the Innovation Precincts and industry strategies to concentrate research strengths, drive collaboration between researchers and businesses and speed up innovation.
- Adopt the eight criteria for future growth industries outlined in Chapter 5 to ensure that benefits of industry development activities are maximised.
- Support the growth and success of early stage innovative businesses by developing programs to incentivise businesses to invest, innovate and hire.
- Set funding governance arrangements and selection guidelines for project specific assistance to ensure money is spent efficiently.
- Create a digital finance and fintech industry development strategy.
- Develop a digital emerging technology industry strategy with a focus on artificial intelligence, blockchain and quantum computing.
- Resource the implementation of existing defence industry plans.
- Establish medtech commercialisation and accelerator programs.
- Develop advocacy strategies for major upcoming defence procurements.



Aspiration: Sustainable environmental and resources management

IMMEDIATELY

- Work with the Commonwealth Government and the states to agree a national energy policy.
- Keep working with Commonwealth, state and local government to better deal with waste.

LONGER TERM

- Develop a policy on hydrogen production and export.
- Adopt a longer-term policy on drought that emphasises water security and better drought-proofing.
- Create an environmental goods and services development strategy to capitalise on waste management and circular economy opportunities.
- Develop a state-wide policy to ensure adequate supplies of drinkable water.

Aspiration: Better government performance

IMMEDIATELY

- Support the NSW Review of Federal Financial Relations.

LONGER TERM

- Examine NSW Government procurement practices to ensure that government purchasing encourages innovation.
- Ensure that government decision-making is underpinned by the best available information.
- Make better use of data and digital technology in delivering government services, especially health services.
- Realise the ambitions of the NSW Cyber Security Industry Development Strategy by committing to ongoing support of the NSW Cyber Security Innovation Node.