AusBiotech

South Australian BioBriefing

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South Australia Productivity Commission

Location: Enterprise and Innovation Hub

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Adelaide

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Opening

Thank you for the opportunity to provide some economic context to this evening's event.

The SAPC is of course independent of government and evidence based so I hope you find my overview useful.

SA Economy

Our states economy is currently running effectively at full employment along with record high participation rates.

In fact at 11am this morning we learnt that South Australia has one million citizens in employment for the first time in our history.

While this is good news there is more to our economic story and I make just three relevant points.

First, due to inflationary pressures, real wages have been substantially cut since 2021 and while there has been some recovery since 2024, recent rising inflation threatens to again cut or restrain real wages.

Second, our jobs boom has been heavily driven by the Health Care and Social Assistance sector. For example, in 2025 almost all South Australian jobs growth was in this sector. While jobs in manufacturing, which includes advanced manufacturing, and information media and telecommunications, went backwards.

Our jobs boom has not been driven by change towards higher value/higher paid jobs. In fact, the opposite is true.

Third, this change is structural. In 2020 healthcare and social assistance jobs comprised 10% of our total workplace. Today it is double that at 20%.

Our preliminary forecast is that in the next 10 years it could easily increase again, from 20% to 25%.

Longer Term Decline

This is all in the context of our longer term decline in national importance.

In 1990 we were 8.4% of Australia's population, by 2020 we made up 7%.

In 1990 we were 6.7% of Australia's economy, by 2020 we were 5.8%.

In 1990 we generated 6% of Australia's exports, by 2020 we generated 3.1%.

This has all contributed to a loss of influence and power. In 1990 we held 13 of the 148 seats in the lower house of the federal parliament. By 2020 we held 10 seats out of 151, a 25% cut in direct voting power.

Collectively what does this mean?

With our recent structural change and outlook, combined with our long term relative economic decline and growing State Government debt position, it becomes very clear that good economic policy is a necessity in South Australia, not an option.

We must pursue a high quality, evidence based growth agenda like never before.

And while opportunities in Defence manufacturing are real, welcomed and must continue to be pursued, we cannot rely on that sector alone to drive this high quality growth agenda.

That would be too risky and unrealistic.

A big part of the long term solution

While sectors of the economy such as agriculture, mining and tourism should be part of that future, our small size and high cost base means a significant part of our high quality growth agenda must be centred around innovation and knowledge intensive goods and services.

This starts with South Australian research and development and the production in our state of commercially and globally competitive intellectual property.

<u>But we have challenges</u>

But, we have problems that need to be solved.

Our first problem is that South Australian businesses currently spend only 0.7 percent of our GSP on R&D, around $1b per year. This needs to increase by 70% to just match NSW or Victoria, needs to more than double to reach the OECD average and more than triple to match benchmark US states.

South Australia also lags in term of innovation outputs as measured by patent intensity. South Australia produces 17 patents per 100,000 residents, which is low based on national and international benchmarks.

South Australia has the second lowest patent intensity of the Australian states, ahead of only Tasmania.

South Australia has a patent intensity equivalent to the 41st ranked US State. The top performing US States have patenting rates that are six times higher than South Australia.

Remember the battle for high value/high wage jobs is a global one, not just a national one.

Our second problem is that the low R&D intensity within the South Australian business sector partly reflects the characteristics of South Australian businesses. While South Australia has some highly entrepreneurial and world leading firms, the majority are small, low growth, and less dynamic, meaning they lack the resources and capabilities to initiate R&D activities.

Previous work by the SAPC found that South Australian businesses are:

- Mostly very small - 65 per cent are sole traders and 23 per cent employ less than five people.

- Less than half as likely to be 'high-growth firms' as the national average, with fewer high growth firms in 19 industry sectors.
- Less dynamic, with lower rates of business entry and exit than other states.
- Generally more 'inward looking' in their innovation.
- Less likely to be exporting, with exports predominantly in primary industries (such as agriculture and mining) rather than more complex, higher value exports.

Consequently, we have previously concluded that most existing South Australian businesses lack the capacity to drive innovation or boost R&D intensity, and that policy should focus on expanding the pool of new businesses that can leverage R&D to enhance their competitiveness, especially through stronger engagement with universities.

Our third problem is that while South Australia has considerable skills around defence and agricultural research and innovation, our state lacks skills in ICT and a number of segments around engineering and science.

SA Government Policy Response

In our view, supporting R&D that meets the needs of the local economy is one of the most valuable long term investment governments can make to drive economic growth and complexity. This creates more higher quality jobs, raises incomes, and generates more government revenue to sustain high quality public services like healthcare.

This is exactly what SA needs.

But it is clear that the Government response to these issues must recognise that:

- The innovation policies of the last 30 years have not worked;
- In particular, focus on buildings and a large range of small business grants that have been spread far too

thin to try and keep everyone happy, will not work any better in the future than it has in the past; and

- Rather, we must focus on building, retaining and attracting world class research talent and for now, generally, our private sector does not have the ability to do that.

Adelaide University

This is why we supported the creation of Adelaide University and are particularly excited that its statutory functions include undertaking and supporting research and innovation for the benefit of our state as well as supporting South Australia's economic development priorities.

These statutory functions, effectively obligations to the people of South Australia, will create a university focussed on producing Intellectual Property that is relevant to our economic growth and I believe, growing that production.

This was therefore in our view, a critical first step in our quality growth agenda.

Next Steps

But there is clearly more to be done.

In September last year, the Premier asked us to advise him on these very issues. His question to us was, are there economically sound and responsible next stage policy steps available to build on the above background, thinking and the creation of the new Adelaide University, to lift our R&D intensity?

We have recently provided our advice and report to him and look forward to his response.

While our report will remain confidential until that response, I can say two things.

Firstly, based on what I've set out earlier, we believe that our university and other public sector researches - even better linked to the private sector - should be central to the next stage of our journey towards high quality economic growth.

Second, we believe a bold, but sound evidence based policy reform is available to our State Government to lift our R&D intensity and accordingly improve the likelihood of a prosperous high quality growth future for our state.

Thanks for the opportunity to provide you with this overview this evening.