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WA Economy - from mining meca to Silicon Valley?

With the global mining industry still facing commodity price headwinds and demand uncertainty, we begin to look at alternative industries to bolster state revenues. While mature industries like agriculture, tourism and education all have their role to play, perhaps the fast-paced, dynamic technology industry will be the next boom for Western Australia?

Large scale mining investment and commodity price-led supply responses has been considered by many to be behind us, and the recent ComSec State of the States ranking, which sees WA at last place – a long way from the top position held just two years ago - all but confirms the need to diversify our economic reliance.

In considering what the next wave of industry could be for WA, a look at the composition of new entrants to the ASX may be a lead indicator.

Over the past 2 years there has been a notable change in the makeup of IPOs, with those relating to the minerals and energy sector dropping from over 50% of total listings in 2007, to only 10% more recently. Technology and healthcare, in comparison, rose from 10% to 40% during the same time period.

In addition, it was observed that backdoor listings into the ASX increased by a massive 164% between 2014 and 2015.

WA has an ever-present optimism around minerals exploration. The widespread desire to find the next big discovery sees WA home to a large number of ASX-listed micro-capitalisation entities starving for cash and direction.

It is these companies craving re-invention that present an attractive opportunity for new players to access capital in the Australian market via a backdoor listing. With the technology revolution upon us it is no surprise this industry is leading the charge.

To this end, Australia's first ASX-listed virtual currency company, DigitalX (previously known as DigitalBTC), launched itself into the market through the WA ASX-listed Macro Energy in early 2014. DigitalX is focused on the global digital payments industry which commenced with the introduction of a virtual currency - Bitcoin.

More recently, Blockchain, the technology underpinning this virtual currency, has evolved into hot property for its ability to be used beyond its original function, with excitement rising as to how it could potential revolutionise the way in which we transact. This technology has the ability to disrupt many industries previously thought untouchable.

What is Bitcoin and Blockchain?

Bitcoin, established in 2009, is a digital currency which is created and held electronically. It was the first implementation of cryptocurrency, and operates within a public ledger known as blockchain. Bitcoin mining (ie: the generating of new bitcoins) had become increasingly difficult for individuals and smaller scale miners to make a profit in which many are being forced to join mining pools in order to reap rewards. Hacking has also proven to be a relentless obstacle as it has been claimed that a third of all bitcoin transactions have been subject to hacking. The largest cyber theft involved the loss of $350 million worth of bitcoins at the MtGox exchange in 2014. This has elevated risk as there is ultimately no depositor's insurance available for loss absorption. The consistent breaches of security have been suggested as a key driver in Bitcoins ongoing decline.

DigitalBTC was the first Bitcoin Company to list on the ASX in March 2014 through its reverse acquisition of Macro Energy. DigitalBTC has now since rebranded to DigitalX, as its core function shifted from bitcoin mining, to software development. Its two key products are Airpocket – a bill pay and money transfer application and DigitalX Direct – a business to business liquidity platform.

The company is now focusing on implementing Blockchain technology and its secure ledger system, and has ceased all bitcoin related activities.

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Not surprisingly, the initial market hype surrounding Bitcoin has now also shifted towards Blockchain, being the key technological innovation of Bitcoin. Blockchain is essentially a general ledger of all Bitcoin transactions. Using cryptography it enables authorised participants to control the ledger, ceasing the need for a central authority to exist. In simple terms, in a world where Blockchain operates, there is no middle-man.

The most common example is demonstrated through financial services, where blockchain would eliminate the clearing house as each bank would maintain its own copy of the ledger. Every ten minutes the transactions are verified, cleared and stored in a block that is part of the chain. As the ledger is accessible to various parties it has been labelled as impossible to be infiltrated. This new technology has opened the door for numerous possibilities and discussion around how else blockchain can be utilised.

Blockchain – where to from here?

At the end of October 2016, the world's first interbank trade transaction between Commonwealth Bank, Wells Fargo and Brighann Cotton was performed combining blockchain technology, smart contracts and the internet of things.

The transaction consisted of a shipment of 88 bales of cotton from Texas USA to Qingdao in China. The bank's letter of credit was stored on the private distributed ledger within a digital smart contract, meanwhile a GPS device tracked the location of the goods in transit, with the smart contract triggering the release of payment.

Utilising blockchain technology in this manner has been claimed as the way of the future, with Commonwealth Bank highlighting the need to shift away from a manual process whilst reducing time, errors and ultimately costs. The blockchain technology also allows for improved transparency between buyers and sellers as goods are tracked in real time with the risk of fraud reduced to nil.

This leads to the potential benefits of this adoption of technology in everyday transactions and the different avenues in which it can be utilised. The key advantage is the elimination of centralised transaction processors such as banks, which are required when a transaction is executed. This instantaneous process effectively removes the requirement for the middleman, and any processing fees that they would be associated with them.

We are currently at a time where everyone is asking each other, what are you doing with Blockchain? Asian lenders are investing millions of dollars into developing applications which could fundamentally change the face of banking. The Bank of Tokyo-Mitsubishi for example, has begun testing with Hitachi Ltd a blockchain system for issuing, transferring and collecting electronic cheques in Singapore.

Loyalty reward programs are another platform for the new technology, as these are viewed as currently not being used to their maximum potential. Studies are showing a higher percentage of inactive members which is attributed to the inconsistent management systems, creating customer confusion. Blockchain would enable administrators, program providers, system managers and customers to interact without any third party invention whilst reducing administration costs.

Blockchain has even been recommended as a secure option for voting systems. It would ensure that no double voting would occur, as well as being transparent and easy to track. Voters would be given permission to vote using digital access keys, whilst using their distributed credits to vote. Privacy and security would effectively be maintained through employing encryption and digital signatures.

The potential positives are quite clear, however consideration must always be given to the potential downside of such technology.

Other than the obvious legal and security concerns, one obvious disadvantage is that new business models will be required to be established. Those companies that decide to implement blockchain into their normal operations will likely have to rebuild significant parts of their systems and processes. According to technology advisory firm, Gartner, the hype surrounding blockchain is currently at its peak which will perhaps be followed by a period of disillusionment. CEO's are proclaiming "we need to work with Blockchain, because we want to disrupt ourselves before we let someone disrupt us". Some however, are sceptical due to its association with bitcoin and its currently tainted reputation.

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One might even argue that the professional services landscape will change dramatically. Implications may arise in terms of accounting and tax treatments, impacting revenue recognition, hedging, mark to market valuation and classification of profit and loss for tax purposes. The traditional banks and payment processors will be faced with new competition and will be forced to adapt in order to maintain their presence within the market.

This brings us back to why the current momentum around technology is important to Western Australia. Technology advancement is moving quickly and there is a constant demand for access to capital and investment.

Western Australia with its significant number of ASX-listed 'shell' companies poses a great opportunity for technology entrants. With the market appetite for tech investment increasing, WA has to be seen as well placed to facilitate backdoor listing opportunities and for these companies to call WA home.

Could we see Western Australia become home to a vibrant and fast paced technology industry akin to that of Sillicon Valley? Only time will tell.

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