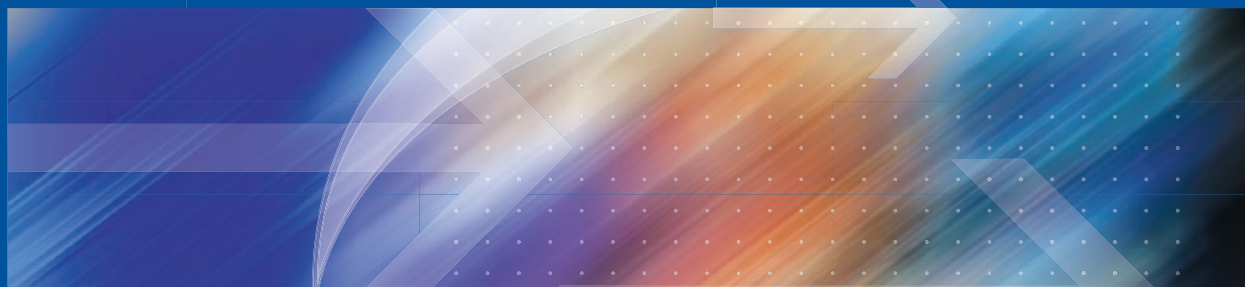


# GLOBAL RETURNS



THE NATIONAL  
STRATEGIC  
FRAMEWORK FOR  
ATTRACTING  
FOREIGN DIRECT  
INVESTMENT



INVEST AUSTRALIA





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INVEST AUSTRALIA

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# CONTENTS

<b>Contents</b>	<b>iii</b>		
<b>Executive summary</b>	<b>v</b>		
<b>Summary of key initiatives</b>	<b>x</b>		
<b>Introduction</b>	<b>1</b>		
Getting the fundamentals right	1		
The role of government in investment attraction	2		
The national investment framework	3		
<b>1. TRENDS IN FOREIGN DIRECT INVESTMENT</b>	<b>4</b>		
1.1 The benefits of foreign direct investment	4		
1.2 Global trends in foreign direct investment	5		
Geographic analysis of foreign direct investment flows	5		
Sectoral analysis of foreign direct investment flows	7		
1.3 Australian trends in foreign direct investment	7		
Geographic analysis of Australian inflows of foreign direct investment	8		
1.4 Other market considerations	9		
The purpose of foreign direct investment	9		
Sectoral booms and busts	9		
Forms of flows of foreign direct investment	9		
Regional economic blocs	10		
1.5 Trends analysis	10		
<b>2. STRATEGIC DIRECTION</b>	<b>11</b>		
2.1 Taking a targeted approach	11		
2.2 The strategic direction of the national investment framework	11		
2.3 Consideration of the Government's objectives and industry needs	13		
2.4 Drivers of investment location decisions	14		
Policy framework and business conditions	14		
Market access	15		
Skills and labour costs	15		
Infrastructure	16		
Research and development	16		
Agglomeration/clusters	17		
Access to natural resources	17		
Culture	18		
Living conditions/lifestyle	18		
Risk avoidance	18		
Exchange rate	18		
2.5 Drivers and benchmarking research	18		
2.6 Priority industry sectors	19		
		Mining	19
		Light metals	19
		Energy	20
		Liquefied natural gas	20
		Renewable energy	20
		Information and communications technology	20
		Biotechnology	21
		Nanotechnology	21
		Environment industry	21
		Heavy engineering and infrastructure	22
		Spatial information	22
		Forest and wood products	22
		Food	22
		Venture capital sector	22
		Film	23
		Finance	23
		Summary of sectoral priorities	23
		Sectoral research	24
	2.7	Review of framework priorities	24
	2.8	Whole-of-nation cooperation on framework priorities	25
	<b>3. MARKET AND RESOURCE PRIORITIES</b>	<b>26</b>	
	3.1	Allocation of Invest Australia's onshore resources	26
	3.2	Allocation of Invest Australia's offshore resources	26
		Europe	27
		North America	28
		Asia	28
		Overview	30
	<b>4. MARKETING</b>	<b>31</b>	
	4.1	Rolling three-year marketing plan	31
		National investment brand	31
		Industry-specific marketing plans for information and communications technology, biotechnology and nanotechnology	32
	4.2	The marketing mix	32
		Publications	32
		Major events	33
		Online strategy	33
		Sponsorships and advertising	33
	4.3	Communications strategy	34
	4.4	Promotional channels	34

<b>5. LEAD GENERATION</b>	<b>36</b>	<b>8. DELIVERING ON THE NATIONAL INVESTMENT FRAMEWORK</b>	<b>49</b>
5.1 Strategic company targeting	36	8.1 A new Invest Australia	49
Industry development goals	36	Chief Executive Officer	49
Offshore market intelligence	36	Corporate Plan 2002-03	49
5.2 Investment leads	37	Corporate identity	49
Foreign Investment Lead Summaries	37	Client service charter	49
Foreign Investment Briefs	37	Key performance indicators 2002-03	50
Australian Investment Lead Summaries	37	8.2 Measuring and reporting on the performance of the national investment framework	50
Investment Client Management System	37		
5.3 Site visits	38	<b>List of acronyms</b>	<b>51</b>
5.4 Inward and outward missions	38		
5.5 Leveraging business matching activities	38		
 <b>6. GOVERNMENT PROGRAMS AND SERVICES</b>	 <b>40</b>		
6.1 Investment facilitation and client service	40		
New Major Project Facilitation service	40		
Proposed Invest Australia Supported Skills Program	41		
Other Government programs	41		
6.2 Strategic investment coordination	42		
6.3 Promoting regional Australia	42		
6.4 Aftercare and reinvestment	43		
6.5 Disinvestment	43		
 <b>7. NATIONAL LEADERSHIP AND PARTNERSHIPS</b>	 <b>44</b>		
7.1 Leadership role of Invest Australia	44		
7.2 National Investment Framework Inter-Departmental Committee	44		
7.3 National Investment Advisory Board	45		
7.4 Industry and Technology Ministers' Council	45		
7.5 Coordination of offshore resources	45		
Department of Foreign Affairs and Trade	46		
Austrade	46		
Overseas offices of States and Territories	46		
7.6 Private sector alliances	47		
7.7 Research mechanisms and partnerships	47		
Commonwealth and State and Territory National Investment Research Group	48		
Australian Bureau of Statistics	48		

## EXECUTIVE SUMMARY

Dr Ian Blackburne submitted his report, *Winning Investment — Strategy, People and Partnerships*, to the Prime Minister in August 2001. The Commonwealth Government accepted the broad thrust of Dr Blackburne's recommendations, including the need to develop a national strategic framework for investment promotion and attraction.

This national investment framework, *Global Returns: The National Strategic Framework for Attracting Foreign Direct Investment*, delivers on this commitment. The framework has been formulated to provide direction for a highly strategic, targeted and nationally coordinated approach to attracting productive foreign direct investment (FDI) into Australia. While it focuses primarily on national issues that fall within the responsibilities of Invest Australia, it has been developed in close consultation with the States and Territories and the private sector, recognising the strong partnerships required to implement the framework effectively.

The framework is structured around eight cascading themes: trends in FDI; strategic direction; market and resource priorities; marketing; lead generation; Government programs and services; national leadership and partnerships; and delivering on the framework. Key initiatives within these themes are discussed below.

### Trends in foreign direct investment

Participation in international markets is essential for the continued growth of many firms and national economies. FDI stimulates economic growth and contributes to higher living standards for Australians. It plays an important role in financing Australia's capital needs, creating jobs and income, generating exports, enhancing industry access to an improved technological and knowledge base, and expanding the global networks of Australian companies.

Global FDI inflows increased at an average annual rate of 40.8 per cent between 1996 and 1999, then by a further 18 per cent in 2000 to reach a record high of US\$1.3 trillion, far outstripping growth in trade flows during the same period. While FDI inflows declined in 2001, reflecting a slowdown in world economic growth, FDI is still a major contributor to globalisation and economic growth. It is significant to note, however, that in an increasingly competitive world market, Australia's share of FDI inflows declined from 1.6 per cent (US\$6.1 billion) to 0.6 per cent (US\$4.1 billion) between 1996 and 2001. Australia's global FDI share is now well below its share of global gross domestic product (GDP), which is at 1.2 per cent.

Ongoing research is required on trends in global and Australian investment flows and the competitive strengths of Australian industry. Sound research is also needed to ensure the national investment framework remains responsive to changes in the global investment market, industry development objectives and the needs of potential investors.

### Strategic direction

The Blackburne report noted that 'we can't afford nor would it be sensible to promote everything we do'. Increasingly, investment attraction agencies worldwide are adopting a policy of deliberately and consistently targeting specific industry sectors and potential foreign investors. This is the approach advocated by the national investment framework.

Invest Australia's mission is to attract productive FDI into Australia to support sustainable industry growth and development. In this context, productive investment refers to investment that will create or safeguard jobs, produce goods and services for the Australian market or generate exports and/or introduce new technology or management expertise. Direct investment refers to investment where the investing company has an active interest in the operations and management of the business. In general, Invest Australia's activities will not involve investment in publicly listed shares, investment in real estate or privatisation projects.

Understanding the drivers of investment location decisions is important in determining Australia's competitive advantages, formulating generic marketing messages and developing targeted campaigns for priority industry sectors. In addition, insight into the investment decision-making process and the operating methods of investors helps to target potential investors effectively.

Market research will be required for each priority industry sector in each market in order for targeted and relevant services to be provided. Information is also required on how Australia is benchmarked against its competitors in terms of key investment location drivers, so as to shape and refine Australia's investment promotion and attraction efforts.

The determination of sectoral priorities for investment attraction needs to be based on a sound understanding of the Government's economic and industry development objectives, industry investment needs and market conditions. In addition, within each priority industry sector, different levels of emphasis need to be placed on investment promotion (raising awareness of Australia as an investment location), attraction (building investment leads through contact with potential investors) and facilitation (accompanying investors through the investment process).

Australia's competitive advantages in areas such as mining and agriculture, for example, are relatively well known and require a less significant level of investment promotion. These sectors do require, however, a strong investment facilitation service. On the other hand, Australia's strengths in other industry sectors such as information and communications technology (ICT) and biotechnology are not as well known and require strong promotion and attraction efforts.

Based on Government economic and industry development priorities, as identified through industry action agendas and policy statements, and taking account of Government commitments to innovation, regional development and national research priorities, table A summarises Australia's sectoral priorities for investment promotion, attraction and facilitation.

Investment promotion and attraction in the industry sectors identified in the fourth column of table A are largely the responsibility of agencies other than Invest Australia — namely, the National Infrastructure and Engineering Forum, the Australian Spatial Information Business Association, AusFILM and Axiss Australia. Invest Australia will, wherever possible, work to support the efforts of these agencies. The Government has made a commitment to review the activities of Axiss Australia before June 2004, with consideration being given to their subsequent absorption into Invest Australia.

Invest Australia will provide facilitation services to all potential investors that seek its services, regardless of industry sector.

Consistent with the Government's election commitment, Invest Australia will also promote the Government's proposed new venture capital (VC) taxation concessions and the investment opportunity presented by the Australian VC industry.

## Market and resource priorities

In addition to determining priority industry sectors for investment attraction, it is necessary to consider priority markets for investment attraction so resources can be allocated efficiently. This consideration requires a detailed analysis of the geographic breakdown of global FDI flows for each priority industry sector, so as to determine which markets are best aligned with the priority sectors. While data on FDI flows into Australia by source country is available, the breakdown does not extend to many countries of strategic interest. In addition, sectoral data (global and Australia specific) that is currently available breaks down FDI flows into only very broad sectors. More comprehensive information in these areas will be sought.

Invest Australia's existing network is located in three cities in Europe (London, Paris and Frankfurt), two cities in the United States (New York and San Francisco) and six cities in Asia (Tokyo, Taipei, Beijing, Shanghai, Hong Kong and Singapore). Compared with the presence in overseas markets of Australia's major competitors for investment attraction, this proposed network is very modest. While there is an extensive Australian government presence overseas in addition to the Invest Australia network, investment promotion and attraction activities will be determined largely by the location of Invest Australia's resources.

Invest Australia's overseas presence will be rebalanced over time to reflect the importance of the United States, Europe and Japan as sources of foreign direct investment. The network will be supplemented wherever possible by short-term secondments, and options to boost the network through efficiency gains in the Australian operations of Invest Australia will be explored.

**Table A: Summary of Sectoral Priorities**

Invest Australia priorities			Other priorities
Facilitation priorities	Extensive Promotion & Attraction Strategies	Limited Promotion <sup>(a)</sup>	
<ul style="list-style-type: none"> <li>• Mining</li> <li>• Energy (including Liquefied Natural Gas)</li> </ul>	<ul style="list-style-type: none"> <li>• ICT</li> <li>• Biotechnology (including Pharmaceuticals)</li> <li>• Nanotechnology</li> </ul>	<ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Environment industry</li> <li>• Forest and wood products</li> <li>• Light metals</li> </ul>	<ul style="list-style-type: none"> <li>• Heavy engineering and infrastructure</li> <li>• Spatial information</li> <li>• Film</li> <li>• Food</li> <li>• Finance</li> </ul>

(a) Subject to the provision of comprehensive industry capability information by other agencies or industry groups.



### Marketing

In consultation with stakeholders, Invest Australia will develop and implement a rolling three-year marketing plan, underpinned by relevant market research on Australia's competitive strengths and effective promotional channels. The objective is to enhance Australia's reputation as a competitive investment destination. The marketing plan will be critical in generating a pipeline of investment leads. A National Marketing Group, comprising representatives of the Commonwealth, States and Territories, will drive the direction of the plan.

A key feature of the plan will be the development of a national investment brand to ensure influential and consistent messages about Australia's attractiveness as an investment destination are reinforced in the marketplace. The brand will dovetail with other national brands so as not to dilute the effectiveness of Australia's existing brand equity espoused by the Australian Tourist Commission, Axiss Australia or Austrade, for example.

Key messages that are expected to underpin the brand are: strong economic credentials; a democratic and politically stable location; a highly skilled and multicultural workforce; a cost-competitive location; sophisticated telecommunications and information technology systems; an innovative culture with excellent research and development (R&D) infrastructure; an open and efficient regulatory environment; strategic time zone advantages; a welcoming attitude to foreign investment; and an excellent quality of life.

Generic marketing activities are expensive and will be very limited in scope. Invest Australia's main marketing focus will be on industry-specific plans for the priority industry sectors of ICT, biotechnology and nanotechnology to be implemented under a 'Technology Australia' brand. These plans will include, but not be limited to, targeted chief executive officer-level contact in key international markets, including through private sector involvement and advocacy by Australian expatriate groups.

A range of promotional materials will be published, including: an Invest Australia flagship publication centred around the brand messages and Invest Australia's services; industry-specific capability documents; testimonials of foreign investment success stories in Australia; presentation materials; and publications providing information for investors on issues such as business costs, regulations, taxation, industrial relations and immigration. Increased effort will also be devoted to achieving a nationally coordinated approach to Australia's participation at major investment-related events to raise Australia's profile on the world stage.

An integrated communications strategy will be implemented to ensure marketing messages are effectively disseminated. This strategy will include a more concerted effort to leverage off Ministerial travel to enhance access to high-level audiences around the globe. In recognition of the power of the Internet as a marketing tool, Invest Australia's website will also be redeveloped.

### Lead generation

Marketing initiatives lay the groundwork for the generation of investment leads. Sometimes marketing may be sufficient to generate the active interest of a potential investor, but more often targeted approaches will be needed to realise latent opportunities. Invest Australia will implement a two-pronged approach to company targeting based on the strategic investment needs of Australian industry and the market intelligence of overseas networks. In this context, the investment needs of regional and rural Australia will be taken into account.

The overseas network has a prime role to play in lead generation through the targeting of specific companies. Company-specific presentation material will be prepared to assist the overseas network to effectively target companies.

Commonwealth, State and Territory Industry Ministers agreed in April 2001 to the implementation of new protocols governing the distribution of investment leads. These protocols ensure all States and Territories have the opportunity to respond, unless otherwise stipulated by the potential investor, to all investment leads generated by Invest Australia's overseas network. These protocols are now operational and working well. In partnership with stakeholders, Invest Australia will also develop an Australian Investment Lead Summary to provide overseas networks with early intelligence on potential investees in Australia.

In cooperation with the States, Territories and industry, other initiatives will be implemented to help generate investment leads. These will include: site visits for overseas companies with a demonstrated interest in investing in Australia; the development of an Investment Client Management System to effectively monitor contact with clients and to assist with company targeting; and efforts to build on business-matching activities at major investment-related events.

## Government programs and services

Invest Australia currently provides a range of services to assist foreign and domestic companies bring an investment project to fruition. To provide a seamless interface between governments, Invest Australia will position itself as the first stop on the investment facilitation continuum, providing an initial contact point for Commonwealth Government approvals and directing investors to other relevant Commonwealth, State, Territory and local government agencies for business programs, project approvals and other assistance.

In most instances, except for projects requiring significant Commonwealth approvals, State and Territory investment agencies will have prime responsibility for bringing investments to fruition. Invest Australia will enhance this partnership with the States and Territories through changes to the services and programs it offers.

At present, the Minister for Industry, Tourism and Resources can confer Major Project Facilitation (MPF) status on selected major projects with capital expenditure of over A\$50 million. This provides a level of recognition that enhances the relationship with a potential investor and gives added impetus to efforts to secure the project. It is significant to note, however, that many projects of strategic significance to Australia — particularly projects in emerging industries and knowledge economy sectors — do not qualify for MPF status because the capital expenditure involved does not exceed the A\$50 million threshold. Accordingly, Invest Australia will recast the current MPF service to ensure projects with genuine strategic significance to Australia can be recognised and assisted by the Government, regardless of the dollar value of the investment.

Streamlined immigration for senior management and specialists is a valuable service in assisting foreign companies to invest in Australia. Building on the current Regional Headquarters Program, Invest Australia will work with the Department of Immigration and Multicultural and Indigenous Affairs to consider options for introducing a new Invest Australia Supported Skills Program to provide foreign investors with special immigration status for key expatriate employees.

The Commonwealth Government recognises there may be a need in certain circumstances for specific incentives to secure a strategic investment for Australia. Invest Australia assists the Prime Minister's Strategic Investment Coordinator in the consideration of investment incentives for strategic projects, in limited and special circumstances where a project would generate significant net economic benefits for Australia. A significant proportion of Invest Australia's resources is consumed in supporting the Strategic Investment Coordination (SIC) process. Invest Australia will continue to support the Strategic Investment Coordinator and work to ensure the SIC process reflects the strategic directions of the national investment

framework. It will also analyse options for streamlining SIC assessment procedures to help secure strategic FDI with relatively short lead times. The Department of Industry, Tourism and Resources will be responsible for ongoing administration of incentive payments to projects supported through the SIC process, including monitoring project progress against agreed milestones.

The ongoing economic development of regional Australia is a high priority for the Commonwealth Government. Invest Australia has developed *Inside Intelligence: Building an Investors' Guide* as a tool to help regional communities collect information on their investment potential. Prime responsibility for the effective implementation of *Inside Intelligence* rests with the communities themselves, in consultation with relevant State and Territory agencies and networks of the Department of Transport and Regional Services. Invest Australia will also work with other stakeholders to implement effectively the Government's Regional Investment and Trade Package.

Existing investors are acknowledged as a primary source of additional investment or 'reinvestment'. Effective aftercare plays a significant role in securing this additional investment where it is locationally mobile. The State and Territory governments play an important role in developing and maintaining close relationships with companies and, through their aftercare activities, in identifying opportunities for reinvestment. Through the links that its overseas network has with the head offices of international companies, Invest Australia is in a position to cooperate with the States and Territories to assist local subsidiaries to make a case to their parent companies when they are competing on a global basis with other subsidiaries for new investment.

### National leadership and partnerships

Under the leadership of Invest Australia, the development of constructive partnerships between Commonwealth agencies, State and Territory governments and the private sector will be fundamental to securing a coordinated approach to investment attraction.

The Employment and Infrastructure Committee of Cabinet and the Industry and Technology Ministers' Council will provide political level oversight of the ongoing development and implementation of the national investment framework.

At the Commonwealth level, Invest Australia will chair a National Investment Framework Inter-Departmental Committee (NIF IDC) to forge a whole-of-Government approach to investment attraction. Invest Australia will work in partnership with the NIF IDC to ensure, for example, the efficient allocation of resources for investment-related research, particularly on industry capabilities.

A National Investment Advisory Board (NIAB) will also be established to coordinate Commonwealth, State and Territory investment attraction activities. In addition, Invest Australia will chair a Commonwealth, State and Territory National Investment Research Group and a National Marketing Group to coordinate a whole-of-Government approach to investment-related research, analysis and marketing.

All Commonwealth agencies with a presence overseas have a collective role in ensuring Australia's national interests are represented in a consistent and effective manner. Given the extensive overseas networks of the Department of Foreign Affairs and Trade and Austrade, partnerships with these agencies will be essential in extending Invest Australia's reach in the global market. Invest Australia will use the Department of Foreign Affairs and Trade's overseas network primarily for high-level representational duties and for initiating contacts with senior business people to advance Australia's investment interests. As part of its general responsibilities, Austrade will provide Invest Australia with an inward investment referral service. In areas where Invest Australia has no overseas representation (such as Africa, the Middle East and India), Invest Australia may choose to contract with Austrade to provide additional investment-related services on a fee-for-service basis.

Invest Australia will seek to use private sector networks in promoting Australia as an investment destination. This approach will help to sharpen the business focus of marketing activities and enhance channels for dissemination of marketing messages. Mechanisms for obtaining advice from the private sector on a regular basis will be explored.

### Delivering on the national investment framework

Invest Australia will be responsive and flexible to stakeholder and client needs in driving the integrated inward investment promotion and attraction effort that is articulated in the national investment framework.

Invest Australia will measure its performance against a range of quantity, quality and cost indicators.

A major review of the strategic direction and performance of the framework will be undertaken after three years (or during 2005).

## SUMMARY OF KEY INITIATIVES

### Chapter 1: Trends in foreign direct investment

- More comprehensive and credible information on trends in global and Australian investment flows will be sought, particularly at the level of sectoral FDI flows.

### Chapter 2: Strategic direction

- Invest Australia will ensure investment promotion and attraction activities are targeted towards priority industry sectors that reflect Government objectives, industry needs and market conditions.
- In-house desktop research and analysis will be supplemented by specifically commissioned market research to provide more comprehensive and credible information on Australia's industry capabilities and strengths, the drivers of investment decision-making and the benchmarking of Australia against its competitors in respect of the ICT, biotechnology and nanotechnology industries. This research will be coordinated through the National Investment Research Group.
- Central to the strategic direction of the national investment framework is the need for different emphases on investment promotion, attraction and facilitation depending on the needs of different industry sectors. Invest Australia will:
  - provide primarily investment facilitation services for the mining and energy sectors, including the LNG sector;
  - continue to provide facilitation services to potential investors in all other sectors;
  - develop and implement extensive promotion and attraction strategies in the ICT, biotechnology and nanotechnology sectors;
  - undertake limited promotion activities for the renewable energy, environment, light metals, and forest and wood products sectors, subject to the provision of detailed industry capability information; and
  - support, where appropriate, the investment-related activities of other Government agencies and industry organisations in the heavy engineering and infrastructure, spatial information, film, food and finance industries.
- Invest Australia will promote in relevant markets the Government's VC tax concessions and the investment opportunity presented by the Australian VC industry.

- Axis Australia's activities will be reviewed before June 2004 with consideration being given to their subsequent absorption by Invest Australia.
- Invest Australia will seek a whole-of-nation approach to the national investment framework's sectoral priorities through the National Investment Advisory Board (NIAB), the Industry and Technology Ministers' Council and industry consultations.

### Chapter 3: Market and resource priorities

- Invest Australia's initial presence in global markets will be as follows:
  - North America – six staff spread across New York, San Francisco and possibly Chicago;
  - Europe – six staff spread across Frankfurt, London and Paris; and
  - Asia – 11 staff spread across Tokyo, Taipei, Hong Kong, Beijing, Shanghai and Singapore.
- Invest Australia's overseas presence will be rebalanced over time to reflect the importance of the United States, Europe and Japan as sources of foreign direct investment.
- Existing resources will be supplemented with short-term secondments and visits to explore potential in new markets, to pursue particular investment opportunities or to provide additional support for high-profile investment events.

### Chapter 4: Marketing

- Invest Australia will establish a National Marketing Group to develop and implement a rolling three-year marketing plan to position Australia as a competitive investment destination.
- Invest Australia will drive the development of an Australian investment brand, supported initially by the following generic messages about Australia's attractiveness as an investment destination:
  1. strong economic credentials;
  2. a democratic and politically stable location;
  3. a highly skilled and multicultural workforce;
  4. a cost-competitive location;
  5. sophisticated telecommunications and information technology systems;
  6. an innovative culture with excellent R&D infrastructure;
  7. an open and efficient regulatory environment;
  8. strategic time zone advantages;
  9. a welcoming attitude to foreign investment; and
  10. excellent quality of life.

- Invest Australia will develop and implement industry-specific marketing plans focusing on the priority industry sectors of ICT, biotechnology and nanotechnology.
- Invest Australia will develop a range of promotional materials, including a flagship publication, industry-specific capability documents, testimonials of foreign investment success stories, presentation materials and publications providing information for investors on issues such as business costs and regulations, taxation, industrial relations and immigration.
- Invest Australia will seek to facilitate a nationally coordinated approach to Australia's participation at major investment-related events.
- Invest Australia will redevelop its external website as an interactive marketing tool and maintain an effective internal website for information dissemination.
- Invest Australia will engage in targeted sponsorship and advertising opportunities that are cost effective and that extend market reach.
- Invest Australia will seek to leverage Ministerial overseas travel to promote Australia as an investment destination.
- Invest Australia will develop and implement an integrated communications strategy to raise the profile of Australia as an investment destination.
- Invest Australia will commission market research to provide more comprehensive and credible information on effective promotional channels.

### Chapter 5: Lead generation

- Invest Australia will implement a two-pronged approach to company targeting based on the strategic investment needs of Australian industry (including the investment needs of regional Australia) and the market intelligence of overseas networks.
- Invest Australia will prepare company-specific presentation material to assist its overseas network to effectively target companies.
- In partnership with stakeholders, Invest Australia will implement agreed protocols for the development and distribution of Foreign Investment Lead Summaries and Foreign Investment Briefs.
- In partnership with stakeholders, where appropriate, Invest Australia will develop Australian Investment Lead Summaries to provide overseas networks with early intelligence on potential investees in Australia.
- Invest Australia will develop and implement an Investment Client Management System to effectively monitor contact with clients and to assist with company targeting activities.

- In cooperation with the States and Territories and industry, Invest Australia will coordinate site visits for overseas companies with a demonstrated interest in investing in Australia.
- Where resources permit, Invest Australia will work in partnership with stakeholders to conduct inward and outward missions to help generate investment leads.
- Invest Australia will, in partnership with stakeholders, build on business-matching activities at major investment related events.

### Chapter 6: Government programs and services

- Invest Australia will position itself as a first stop on the investment facilitation continuum, providing an initial point of contact for Commonwealth Government approvals and directing investors to other relevant Commonwealth, State and Territory and local government agencies.
- Invest Australia will revamp the Major Project Facilitation (MPF) service for eligible project proponents to align with the strategic direction of the national investment framework.
- Invest Australia will work with the Department of Immigration and Multicultural and Indigenous Affairs to consider options for introducing an Invest Australia Supported Skills Program (IASSP) to provide foreign investors with special immigration status for key expatriate employees.
- Invest Australia will enhance its corporate knowledge systems to provide staff with access to up-to-date information on the range of Commonwealth Government programs and assistance measures available to potential investors.
- Invest Australia will work with the Strategic Investment Coordinator to ensure the SIC process reflects the strategic directions and priorities of the national investment framework.
- Invest Australia will analyse options for streamlining assessment procedures under the SIC process to help secure strategic FDI with relatively short lead times.
- Invest Australia will promptly refer information on risks of disinvestment to relevant Commonwealth and State and Territory agencies.

## Chapter 7: National leadership and partnerships

- Invest Australia will assume a leadership role in the implementation of the national investment framework.
- The Employment and Infrastructure Committee of Cabinet and the Industry and Technology Ministers' Council will provide political-level oversight of the ongoing development and implementation of the national investment framework.
- Invest Australia will chair a National Investment Framework Inter-Departmental Committee (NIF IDC) to assist the development of a whole-of-Government approach to investment attraction.
- Invest Australia will work in partnership with the NIF IDC to ensure the efficient allocation of resources for investment-related research, particularly research on industry capabilities.
- A National Investment Advisory Board (NIAB) will be established to coordinate Commonwealth and State and Territory investment attraction activities.
- Invest Australia will use the Department of Foreign Affairs and Trade's overseas network primarily for high-level representational duties. To foster closer links between the two organisations, a new set of principles for future cooperation will be established to specify the roles and responsibilities of the department's posts, areas of cooperation with Invest Australia and effective reporting mechanisms.
- As part of its general responsibilities Austrade will provide Invest Australia with an inward investment referral service.
- Invest Australia will, as appropriate, forge strategic research alliances with the private sector to obtain investment-related information necessary for efficient and effective investment attraction activities.
- Invest Australia will examine mechanisms for gaining advice from the private sector on a regular basis and seek opportunities to partner with the private sector in investment promotion and attraction activities.
- Invest Australia will chair a Commonwealth and State and Territory National Investment Research Group to coordinate a whole-of-Government approach to investment-related research and analysis.
- Invest Australia, with the Australian Bureau of Statistics, will explore options for obtaining an enhanced disaggregation of FDI inflows to Australia by market and priority sectors.

## Chapter 8: Delivering on the national investment framework

- The Government has appointed a high-profile Chief Executive Officer to provide vision and leadership to enable Invest Australia to fulfil its mission.
- Invest Australia has released a Corporate Plan for 2002-03 which articulates clearly its mission, objectives, major activities and performance indicators for the year.
- Invest Australia will ensure consistency in its corporate identity, including logo, branding and other marketing collateral.
- Invest Australia has developed a client service charter to codify the organisation's commitment to excellence in service delivery.
- Invest Australia will measure its performance against a range of quantity, quality and cost indicators.
- The Commonwealth Industry Minister will table an *Investment Outcomes and Objectives Statement* in Parliament every three years, to review the strategic direction and performance of Invest Australia and the national investment framework.



# INTRODUCTION

The Commonwealth Government recognises that winning investment is essential for continued strong economic growth and national prosperity.

In early 2001, the Government appointed Dr Ian Blackburne, a former chief executive officer of Caltex Australia, to undertake a review of the Commonwealth's inward investment promotion and attraction efforts. Dr Blackburne presented his report, *Winning Investment — Strategy, People and Partnerships*, to the Prime Minister in August 2001.

In *Securing Australia's Prosperity*, the Commonwealth Government accepted the broad thrust of Dr Blackburne's recommendations. In particular, it agreed to:

- the establishment of a revamped Invest Australia within the Industry, Tourism and Resources portfolio from 1 July 2002;
- the integration of the Commonwealth's investment promotion and attraction activities into the new Invest Australia;
- the appointment of a high profile chief executive officer to provide strong leadership for the new agency; and
- the development of a national strategic framework for investment promotion and attraction.

This national investment framework, *Global Returns: The National Strategic Framework for Attracting Foreign Direct Investment*, delivers on the Government's objective to develop a national strategic framework for investment promotion and attraction. It has been formulated to provide direction for a highly strategic, targeted and nationally coordinated approach to attracting productive foreign direct investment (FDI) into Australia.

The framework focuses primarily on national issues that fall within the responsibility of Invest Australia. It has been developed, however, in close consultation with the States and Territories and the private sector, recognising the strong partnerships required to implement the framework effectively.

## Getting the fundamentals right

In a highly competitive international marketplace, in which global capital is increasingly mobile, it is important to ensure Australia has the right fundamentals in place to secure the levels of investment necessary for a productive and sustainable future.

The Government has implemented a broad range of policies and programs designed to ensure Australia remains an attractive destination in which to do business. Fundamental to this approach has been the development of a strong and robust economy that has achieved significant levels of growth in recent times. The *World Competitiveness Year Book 2002* ranks the Australian economy as the most resilient in the world, having withstood the Asian financial crisis in 1997 and the global downturn in 2001.

Since 1990, Australia's average annual gross domestic product (GDP) growth of 3.2 per cent has exceeded that of almost all other Organisation for Economic Cooperation and Development (OECD) economies, including the United States, Canada, the United Kingdom, Germany and Japan. It has been fuelled by productivity growth exceeding 2 per cent annually and a low underlying inflation rate averaging around 2–2.5 per cent a year. This strong performance is expected to continue, with *The Economist* tipping the Australian economy to top the developed world's growth forecasts over the next two years.<sup>1</sup>

Sound macroeconomic settings have been complemented by the pursuit of microeconomic reforms and industry policies to reinforce Australia's underlying international competitiveness.<sup>2</sup>

The following policies and programs are indicative of those introduced to enhance Australia's economic credentials:

- The Government has introduced a range of tax reforms to provide Australia with an internationally competitive taxation system. Australia's company tax rate now stands at 30 per cent and a goods and services tax (GST) has replaced an inefficient and multilayered indirect taxation system. Personal income tax has been reduced and a new capital gains tax system has been introduced to improve the incentives to save and invest. A review of international taxation arrangements has commenced.

1 *The Economist*, 16 November 2002

2 Department of Industry, Tourism and Resources 2001, *Developments in Australian Industry Policy 2001*, AusInfo, Canberra, p. 11.

- Australia's workplace relations reforms have provided a flexible labour market that is conducive to jobs growth in emerging industries and improvements in the efficiency of more established industries. These reforms have been instrumental in achieving a low level of industrial disputation and more diverse, secure and rewarding jobs in both large and small businesses. An increased focus on workplace agreements has provided greater scope for employers and employees to share the rewards of their firm's performance, encouraging increased productivity and a culture of continuous improvement and innovation.
- Through the National Skills Initiative, the Government continues to work constructively with selected industries to ensure training opportunities are available to help overcome any skill shortages that otherwise might impede their progress both domestically and within the global market.<sup>3</sup>
- The Government's Innovation Statement, *Backing Australia's Ability*, takes an integrated, whole-of-Government approach to promoting innovation, commits significant additional funding for science, research and innovation, and is designed to ensure Australian businesses maintain a competitive edge.<sup>4</sup>

These policy settings have allowed Australian industry to invest with certainty and confidence, in an environment of strong economic growth. Importantly, they have provided the economic infrastructure that underpins Invest Australia's efforts to promote Australia as a competitive investment destination.

## The role of government in investment attraction

While the creation of a sound economic environment conducive to industry growth is critical to ongoing business investment, it is also important to ensure information about Australia's competitive advantages as an investment destination is effectively disseminated. High-quality information is critical to companies making soundly based commercial decisions.

As noted in the Blackburne report, in the light of information deficiencies in the global marketplace about Australia's strengths and capabilities, the Government should devote attention to promoting Australia offshore as a place to invest. Dr Blackburne indicated that investors, while likely to be generally well informed about some aspects of Australia's comparative advantage (such as our expertise in the resources sector), are likely to be less well informed about our expertise in other areas. Australia is not always 'front of mind' for potential investors in the information technology sector, for example, despite our strengths in software development and our well-established research and development (R&D) infrastructure.

While the private sector is the principal source of FDI, it is significant to note that there is market failure in the generic promotion of Australia as an investment destination by the private sector. While individual firms could be expected to promote their own competitive strengths, they are unlikely to engage in generic marketing because they are unable to capture the full benefits of such marketing. This is because the benefits of promoting the advantages of Australia's investment environment or the strengths of particular industry sectors are spread more widely throughout the economy.

Accordingly, there is justification for a concerted Government role in investment promotion and attraction, based on market failure in the provision of adequate information about Australia's opportunities for FDI. This is particularly important given that international competition for FDI is intense and that virtually all countries now compete to attract and retain global enterprises.<sup>5</sup>

Arguably, the Commonwealth Government is best placed to harness the resources required to promote the nation's credentials to potential investors, because it is able to adopt a whole-of-nation perspective and engage in marketing activities that benefit the economy as a whole.<sup>6</sup> This ability is demonstrated by Invest Australia's success in recent years in attracting and facilitating productive FDI. Since the establishment of Invest Australia in 1997, it has helped attract 355 new investments, leading to a total planned investment expenditure of A\$10.9 billion with the potential to create over 22 800 new jobs and exports in excess of A\$5.4 billion a year. In addition, Invest Australia has assisted the Strategic Investment Coordinator to secure investment worth A\$9 billion for Australia through the provision of targeted investment incentives, potentially creating 2700 jobs.

3 Ibid., p. 3.

4 Ibid., p. 5.

5 Department of Foreign Affairs and Trade 1999, *Foreign Direct Investment: The Benefits for Australia*, AusInfo, Canberra, p. ix.

6 Dr Ian Blackburne 2001, *Winning Investment: Strategy, People and Partnerships*, Report to the Prime Minister, Canberra, p. 15.



### The national investment framework

The objectives of this national investment framework are to ensure:

- FDI contributes to overall economic growth and industry development in Australia;
- Australia maximises the benefits of FDI, particularly in terms of the quantity and quality of investment attracted to Australia, the sectors into which it is attracted and the sustainable benefits achieved;
- the messages received by potential investors about Australia are clear and consistent; and
- the approach to promoting, attracting and facilitating investment is seamless for potential investors and is carried out in the most efficient and cost-effective manner.

The framework incorporates a range of activities required to successfully promote Australia as an internationally competitive investment destination and to attract and facilitate investment projects. It is structured around the following eight broad interrelated themes:

1. trends in foreign direct investment;
2. strategic direction;
3. market and resource priorities;
4. marketing;
5. lead generation;
6. Government programs and services;
7. national leadership and partnerships; and
8. delivering on the national investment framework.

Research and analysis of *trends* in FDI underpins the national investment framework and assists in identifying the markets and sectors to be targeted. Ongoing analysis of trends and global flows will continue to inform the strategic direction of the framework.

Overall, the industry development objectives of the Government, industry investment needs and market conditions determine *strategic direction* and help to identify target markets, sectors and companies, as well as provide the basis for key marketing messages.

Offshore and onshore offices of Invest Australia provide support to investors, with *resource priorities* in these offices being determined in relation to priority industry sectors and the markets in which investment is sought.

*Marketing* delivers the key messages to the target audience to raise the profile of Australia in the investment marketplace, to generate a continuous and growing pipeline of investment leads.

Increased *lead generation* is the result of specific targeting of multinational investors, effectively using offshore market intelligence to identify investment opportunities and implement effective lead protocols for new overseas investment enquiries.

Once potential investors are 'hooked', the *services provided to potential investors* by Australian governments are activated to secure an investment project. In certain circumstances, where a strategic investment project would generate significant net economic benefits for Australia, the Prime Minister's Strategic Investment Coordinator considers investment incentives. Effectively using relationships with existing investors provides a means of identifying reinvestment opportunities.

An overarching theme to the framework is *partnership*, which is essential for securing investment in Australia. Invest Australia will assume a *leadership* role in facilitating a nationally coordinated approach to investment promotion and attraction. A cooperative approach by stakeholders is essential to the achievement of the national investment framework's objectives. The framework articulates a range of supporting initiatives.

The Commonwealth Government has provided Invest Australia with the flexibility to drive *an integrated inward investment promotion and attraction effort*, and has appointed a Chief Executive Officer with the necessary vision and leadership to achieve this effort. It is intended that a review of the strategic direction of the national investment framework be undertaken after the first three years; it will include information on how Invest Australia is progressing against key initiatives of the framework.

The cascading approach articulated above is the investment promotion and attraction continuum on which the national investment framework is built. The following chapters provide more detailed information on the approach and initiatives to be adopted under each of the themes.

# 1. TRENDS IN FOREIGN DIRECT INVESTMENT

*Australia is a relatively small part of the world's economy, constituting 1.5 per cent of world GDP, and is remote geographically. This means we have to work hard as a nation to ensure we are not peripheral to an investor's interests.<sup>7</sup>*

## 1.1 The benefits of foreign direct investment

In a highly competitive global economy, participation in international markets is essential for the continued growth of many firms and national economies. Foreign direct investment (FDI) stimulates economic growth and contributes to higher living standards for Australians. It plays an important role in financing Australia's capital needs, creating jobs and income, generating exports, enhancing industry access to an improved technological and knowledge base, and expanding the global networks of Australian companies.<sup>8</sup> It also helps to build economies of scale necessary to compete in an increasingly competitive world economy.

Historically, Australia has long relied on foreign capital to increase its productive capacity. An underlying savings–investment imbalance, as reflected in the current account deficit, indicates an ongoing requirement for FDI in Australia to supplement local savings to finance investment needs.<sup>9</sup>

The jobs of many Australians can be attributed to foreign investment. It is estimated that more than half a million people in metropolitan and regional Australia work in firms with majority foreign ownership. Many more work in firms and communities that rely on foreign-owned companies as customers and suppliers of goods and services. One in five jobs in the manufacturing sector are in firms with majority foreign ownership and more than one in four jobs in the mining industry are in enterprises that are substantially foreign owned.<sup>10</sup>

Research suggests that for every 5–6 per cent increase in investment, gross domestic product (GDP) increases by 1–2 per cent.<sup>11</sup> It is also estimated that foreign controlled companies operating in Australia account for 18 per cent of the nation's revenue. In this context, it is significant that for every dollar of output generated from foreign investment in Australia, 96 cents is retained in Australia primarily in the form of wages to employees, taxes and reinvestment in Australian operations.<sup>12</sup> Firms with substantial foreign ownership account for about 25 per cent of Australian exports. Australian Bureau of Statistics (ABS) data also indicates that foreign-owned firms are more likely than domestically owned firms to export, thereby enhancing the economy's capacity to grow.<sup>13</sup>

In addition, there is evidence that FDI encourages industry innovation. ABS analysis indicates that foreign-owned businesses in Australia spent an average of A\$2 million on local research and development (R&D) activity, compared with an average R&D expenditure by locally owned firms of only A\$920 000.<sup>14</sup> This is supported by a 1998 *Business Review Weekly* survey, which revealed that more than half of the top 50 most innovative companies in Australia at the time were foreign-based companies.

Foreign direct investment typically comes in a package. Multinational corporations that have invested in Australia have provided knowledge spillovers that have generated further innovation, technology and skills transfer, and that have increased market access through established distribution channels.

Relatively scarce venture capital (VC) and risk capital in Australia also mean that many domestic firms can expand their businesses, particularly in new and innovative areas, only by entering into strategic alliances with overseas companies. Small and medium-sized firms often find it difficult to raise capital in their early stages of development, while large-scale projects requiring substantial capital are often too large for Australian financial institutions or equity markets alone.

7 Blackburne 2001, op. cit., p.(i).

8 Department of Foreign Affairs and Trade 1999, op. cit., pp. x–xii.

9 Blackburne 2001, op. cit., p. 1.

10 Department of Foreign Affairs and Trade, *Exploding the Myths: Facts about Trade and International Investment*, [http://www.dfat.gov.au/publication/exploding\\_myths/exploding\\_the\\_myths.html](http://www.dfat.gov.au/publication/exploding_myths/exploding_the_myths.html).

11 R Whitclaw 1994, *Investment and Economic Growth, A Critique of De Long and Summers*, in *Investment for Growth*, EPAC Background Paper No 39.

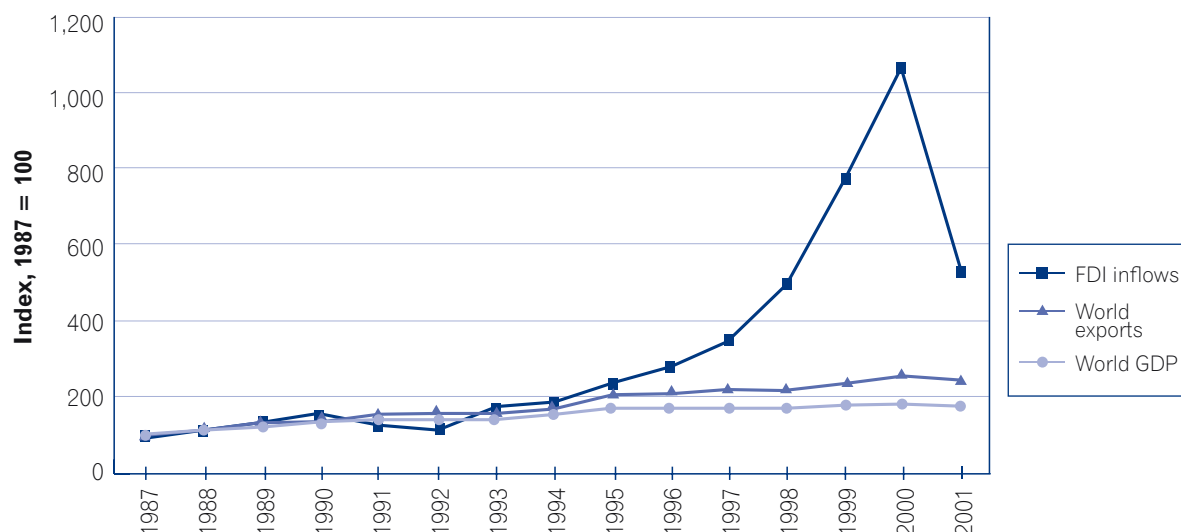
12 Department of Foreign Affairs and Trade 1999, op. cit., p. xiv.

13 Ibid., p. 28.

14 'Foreign firms outspend locals on R&D', *Australian Financial Review*, 2 August 2002

## 1. TRENDS IN FOREIGN DIRECT INVESTMENT

**Chart 1.1: Relative Growth of Global Trade and Investment (1987–2001)**



Source: IMF & UNCTAD <sup>18</sup>

### 1.2 Global trends in foreign direct investment<sup>15</sup>

Over the past decade, global FDI has expanded rapidly, with FDI inflows increasing at an average annual rate of 20.8 per cent between 1991 and 1995 and 40.8 per cent between 1996 and 1999. Global FDI inflows continued their strong growth in 2000, increasing by 18 per cent to reach a record high of US\$1.3 trillion.<sup>16</sup>

According to the United Nations Conference on Trade and Development (UNCTAD), however, FDI inflows declined to US\$735 billion in 2001.<sup>17</sup> This decline in global FDI flows represents the first decline since 1991 and the largest over the past three decades. It can be attributed primarily to the slowdown in world economic growth and a decrease in mergers and acquisitions activity.

As illustrated in chart 1.1, growth in FDI far outstrips the growth in trade over recent years. This reinforces the relative importance of FDI to globalisation and the need to afford investment attraction a high priority.

#### Geographic analysis of foreign direct investment flows

As indicated in table 1.1, data from UNCTAD shows that countries of the European Union and the United States are the major sources of global FDI outflows.<sup>19</sup> The share of outflows from the European Union increased from 46.5 per cent in 1996 to 58.8 per cent in 2001 (with a peak of 70.2 per cent in 2000). Within the European Union, the United Kingdom has been the major source, accounting for over 18 per cent of global FDI outflows from 1998 to 2000, dropping to 6.4 per cent in 2001. Germany's share of global FDI outflows decreased from 13 per cent in 1998 to 3.6 per cent in 2000, but increased to 7.0 per cent in 2001. France's share increased from 7.5 per cent in 1997 to 13.3 per cent in 2001, while over the same

period Belgium and Luxembourg's share dramatically increased from 1.6 per cent to 17.5 per cent in 2000, then decreased to 10.8 per cent in 2001. While the United States has traditionally been the largest individual source of FDI outflows, its share was less than that of the United Kingdom in 1999 and less than the shares of the United Kingdom, France, and Belgium and Luxembourg in 2000. It returned to primacy in 2001, with 18.4 per cent.

The European Union and the United States are also the largest recipients of FDI, with the latter being the largest single recipient country in the period 1996–2000. The European Union is the largest regional recipient, accounting for 54.2 per cent of FDI inflows in 2000 and 43.9 per cent in 2001.

Preliminary data from Eurostat indicates, however, that while the United Kingdom was the largest source globally of FDI outflows in 1999 and 2000, the recipients of these flows were primarily other EU nations.<sup>20</sup> This trend is not restricted to the United Kingdom. A survey

<sup>15</sup> There are limitations to the data used in this analysis. First, FDI figures may not show the true value of investments by multinationals where affiliates raise funds in domestic or international markets (see *UNCTAD World Investment Report 2002*, p. 14). Further, there are discrepancies between global FDI outflows and global inflows, and in data produced by different nations, resulting from differences in measurement and reporting. As well, FDI figures are subject to revision with changes in values of companies and currency fluctuations.

<sup>16</sup> UNCTAD 2001, *World Investment Report 2001*

<sup>17</sup> UNCTAD 2002, *World Investment Report 2002*

<sup>18</sup> International Monetary Fund (April 2002), *World Economic Outlook Database* <http://www.imf.org/external/pubs/ft/weo/2002/01/data/index.htm>, accessed November 2002; UNCTAD (2002), *Handbook of Statistics On-Line* <http://stats.unctad.org/>, accessed November 2002.

<sup>19</sup> UNCTAD, *World Investment Report 2002*

<sup>20</sup> Eurostat 2002, 'Foreign direct investment EU FDI flows with extra-EU countries down by nearly 40% in 2001', 4 July.

**Table 1.1: Top 10 sources of FDI outflows**

Rank	1997	1998	1999	2000	2001
1	United States	United States	United Kingdom	United Kingdom	United States
2	United Kingdom	United Kingdom	United States	BLEU (a)	France
3	Germany	Germany	BLEU (a)	France	BLEU (a)
4	France	France	France	United States	Netherlands
5	Japan	Netherlands	Germany	Netherlands	Germany
6	Netherlands	Canada	Netherlands	Hong Kong, China	United Kingdom
7	Hong Kong, China	BLEU (a)	Spain	Spain	Japan
8	Canada	Sweden	Switzerland	Germany	Canada
9	Switzerland	Japan	Japan	Canada	Spain
10	Sweden/Spain	Spain	Sweden	Switzerland	Italy

(a) BLEU = Belgium Luxembourg Economic Union

Source: Data from UNCTAD<sup>21</sup>**Table 1.2: Top seven EU sources of extra-regional FDI outflows**

Rank	1999 (a)	2000	2001 (b)
1	United Kingdom	France	Germany
2	Germany	Netherlands	BLEU (c)
3	Spain	Germany	Netherlands
4	Netherlands	United Kingdom	France
5	BLEU (c)	Spain	Spain
6	Sweden	BLEU (c)	United Kingdom
7	Portugal	Finland	Denmark

(a) 1999 data excludes flows from France – though UNCTAD data shows it was the third biggest source of outflows in the EU in 1999.

(b) 2001 data is based on preliminary information/not yet adjusted.

(c) BLEU = Belgium Luxembourg Economic Union

Source: Data from Eurostat<sup>25</sup>

undertaken in January 2002 reveals that Western European companies focus their investment interest on the European continent, with the intention of improving market access, reducing costs and consolidating operations.<sup>22</sup> The increase in intra-EU flows has been encouraged by the monetary union and the completion of the single market.<sup>23</sup> A rough guide drawn from available evidence indicates that some 50 per cent of FDI originating from an EU country is located in another EU country, with another 25 per cent being destined for North America.<sup>24</sup> Given this breakdown, Australia would appear to confront a difficult challenge if it attempted to divert this high proportion of intra-regional flows away from the European Union.

Table 1.2 shows the top seven EU sources of extra-regional FDI outflows. Comparing the data with table 1.1, it is clear that the EU nations with the greatest outflows to recipients outside the European Union are not necessarily those with the greatest overall outflows. In 2000, for example, France was third to the United

Kingdom and Belgium/Luxembourg in global outflows, but first in flows leaving the European Union. Similarly, while the United Kingdom was the number one source of global FDI outflows in 2000, it was the fourth largest source of flows leaving the European Union.

The Belgium Luxembourg Economic Union (BLEU) accounts for a high proportion of global FDI outflows, as well as for flows leaving the EU region. Eurostat data notes, however, that the high outward FDI flows for BLEU can be explained by the large number of mergers and acquisitions involving holding companies located in

21 UNCTAD, *World Investment Report 2002*

22 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, *Foreign Direct Investment Survey January 2002*, p. 8, 11, 16, 22.

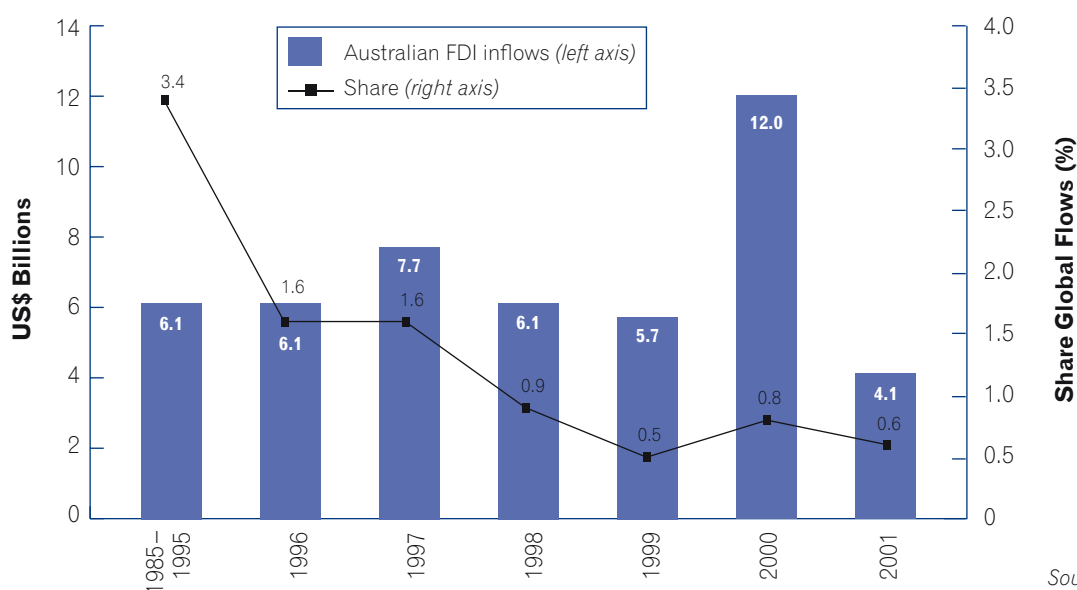
23 Economist Intelligence Unit 2001, *World Investment Prospects 2001*, p. 63.

24 Economist Intelligence Unit 2002, *World Investment Prospects 2002*, p. 74.

25 Compiled from Eurostat 2002, op. cit.; Eurostat 2001, 'EU foreign direct investment — Intra-EU investment increased by 50% in 2000', 6 July.

26 Eurostat 2001, op. cit.

**Chart 1.2: Australian Share of Global FDI inflows**



Belgium.<sup>26</sup> The Economist Intelligence Unit states that the high amount of FDI going in and out of Belgium can be somewhat attributed to an attractive tax regime for company headquarters, because foreign mother companies channel direct investments abroad through Belgian coordination centres.<sup>27</sup> This indicates that Belgium is not necessarily a key source of FDI, but rather an intermediary.

### Sectoral analysis of foreign direct investment flows

To take a targeted approach to investment attraction, it is essential to consider which industry sectors are generating investment outflows in addition to the country of origin. The data available for breakdown of FDI flows by sector is limited. At the top level, the available data aggregates sectoral FDI flows into primary, manufacturing and services sectors.<sup>28</sup> Where data is available in more specific breakdowns, the subcategories are still high level and provide little insight into the actual nature of the flows. This is particularly the case for emerging, enabling, high-tech sectors (such as information and communications technology (ICT), biotechnology and nanotechnology), where the level of useful information is nonexistent.

### 1.3 Australian trends in foreign direct investment

The competition to secure an increasing share of global FDI is very strong. In 2001, Australia captured a relatively small proportion of the global investment market (0.6 per cent of global FDI flows) and is facing strategic challenges to even maintain this share. While the past decade was characterised by a rapid increase in global FDI inflows, Australia's level of FDI inflows has been relatively stable (other than in 2000, which was a year

of exception globally). As a result, Australia's market share of global FDI inflows has declined (chart 1.2). In 2001, FDI flows into Australia decreased substantially, reflecting a downturn in world economic growth.

This fall over the past few years has meant that Australia's share of FDI flows has fallen well below its share of global economic activity. In 2001, Australia's share of global GDP was 1.2 per cent.

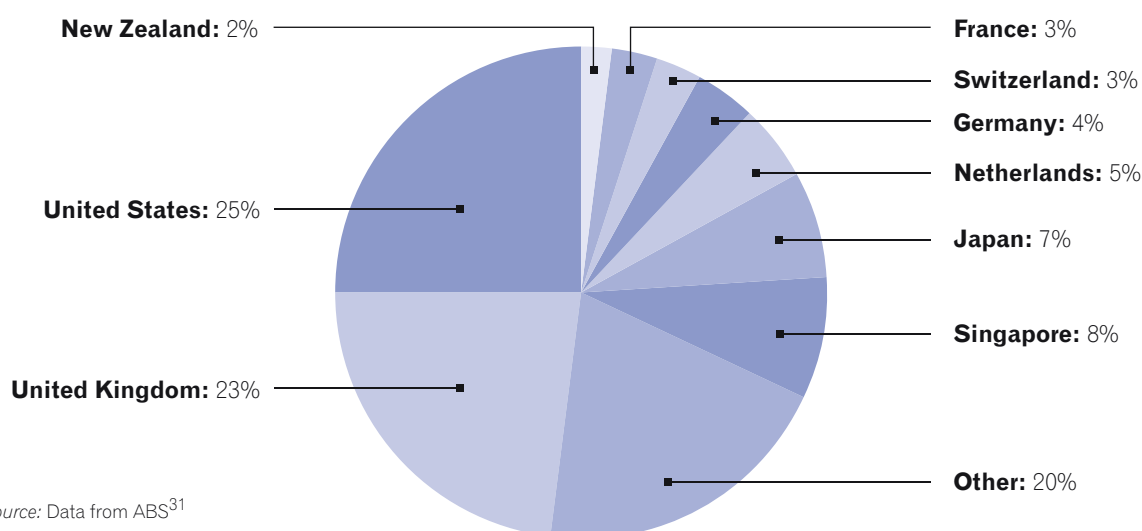
Chart 1.3 shows the breakdown of Australian FDI stock by source country as at 30 June 2002. Australian FDI has historically come from the United States, the United Kingdom and Japan, which collectively account for 55 per cent of Australian FDI stocks.<sup>30</sup> These source countries of FDI for Australia have rightly been a focus of Invest Australia's activities since it was first established in 1997. To optimise FDI flows to Australia, however, Invest Australia must ensure its efforts are responsive to changes in global market conditions. This will require looking beyond Australia's traditional source countries and being alert to changes in world investment flows.

<sup>27</sup> Economist Intelligence Unit 2002, op. cit., p. 157.

<sup>28</sup> OECD international direct investment statistics, for example.

<sup>29</sup> UNCTAD 2002, op. cit.

<sup>30</sup> Singapore is a recent entrant as the third largest holder of FDI stock in Australia.

**Chart 1.3: Stock of FDI in Australia, as at 30 June 2002, by country**Source: Data from ABS<sup>31</sup>**Table 1.3: Top seven sources of Australian FDI inflows**

Rank	1997-98	1998-99	1999-2000	2000-01	2001-02
1	United States	United Kingdom	United Kingdom	United Kingdom	Singapore
2	Philippines	Germany	Japan	Netherlands	United States
3	BLEU (a)	Central America and Caribbean	New Zealand	Hong Kong	Germany
4	Switzerland	Netherlands	France	Canada	BLEU (a)
5	Singapore	New Zealand	Singapore	Central America and Caribbean	Japan
6	France	BLEU (a)	Switzerland	Japan	Canada
7	South Africa	Ireland	South Africa	Germany	Switzerland

(a) BLEU = Belgium Luxembourg Economic Union.

Source: Data from ABS<sup>32</sup>**Geographic analysis of Australian inflows of foreign direct investment**

Table 1.3 shows the top seven source countries for Australian FDI inflows from 1997-98 to 2001-02. Despite the United States holding the most FDI stocks in Australia, it was only in the top seven sources of FDI for Australia for two years (1997-98 and 2001-02), with marginal or negative inflows in the intervening years.

The contribution of Asian nations to Australia's FDI inflows has been mixed. In 1997-98 and 1998-99, other than the Philippines, no Asian nations ranked in the top seven sources of Australian FDI inflows (and Australia experienced a large disinvestment from the Philippines in 2000-01). This can be partly attributed to the Asian economic crisis of that period. In 1999-2000, however, Japan was the second ranked source of Australian FDI inflows; in 2000-01, Hong Kong and Japan were ranked

third and sixth respectively; and, in 2001-02, Singapore and Japan were ranked first and fifth respectively.

Between 1998-99 and 2000-01, the United Kingdom was ranked first as a source of Australian FDI inflows, but was not in the top seven in the surrounding years. Germany and Switzerland were ranked in the top seven in three of the five years, while France and the Netherlands ranked in the top seven in two years of the period.

31 ABS International and Financial Accounts Data Management Unit 2002, Canberra, September.

32 ABS International and Financial Accounts Data Management Unit 2002, op. cit.



In examining FDI flows, note that unusually large individual projects can distort flows in any one year. It is therefore important to exercise caution in drawing conclusions from flows that fluctuate significantly. While the geographic breakdown of global FDI outflows and inflows to Australia can help guide the optimum allocation of Invest Australia's offshore resources, it also must be acknowledged that in some circumstances the decision to invest can be made in a different country from that in which a flow originates. A company may need, for example, to seek approval for an investment from a central headquarters in a different nation. Alternatively, the regional subsidiary, rather than the central office, may make the investment decision. These scenarios reinforce the need for a targeted approach at the firm level and the need for Invest Australia to nurture good client relationships to influence investment location decisions.

### 1.4 Other market considerations

#### The purpose of foreign direct investment

The Economist Intelligence Unit predicts that two major categories of global FDI flows will continue.<sup>33</sup> One type is designed to tap new markets and/or to augment supplies of national resources; it is likely that an increasing proportion of this type of FDI will go to developing countries such as Brazil and China. The other type of FDI is aimed at sourcing and coordinating knowledge-enhancing resources and capabilities from throughout the world; it is likely that this type of FDI will continue to flow mainly to developed countries.

The implications for Australia from this analysis are mixed. Australia's abundant supply of natural resources is well known and makes Australia a target for the former category of FDI. As a developed economy seeking to portray its business environment as sophisticated and innovative, however, Australia will be primarily competing for the latter category of FDI. This assessment is important in establishing priority areas for the national investment framework.

#### Sectoral booms and busts

While sectoral market booms and busts must be considered, they should not be taken at face value. Rather, it is more important to consider the long-term fundamentals of a sector/technology. In the case of the dot.com boom and bust, for example, it is evident that there is no role for Invest Australia to pursue investment promotion and attraction, because the fundamental value of dot.com companies is recognised as being questionable. In contrast, the current global telecommunications downturn has not changed the

long-term fundamental viability of this industry. Rather, the current downturn should be viewed as part of the normal business cycle for the telecommunications industry. To this end, it is imperative that Invest Australia continue to focus on the ICT sector and, when activity increases in the marketplace, be prepared to respond accordingly to target investment activity.

#### Forms of flows of foreign direct investment

The annual value of cross-border mergers and acquisitions has increased by more than five-fold in the past 10 years.<sup>34</sup> It should be noted that five deals accounted for 30 per cent of the total value of all mergers and acquisitions in 2000.<sup>35</sup> Mergers and acquisitions are likely to continue to be a dominant form of FDI flows. The Economist Intelligence Unit sees the boom in mergers and acquisitions as a trend driven by fundamental factors that will continue to remain in play, even if there is a prolonged economic slowdown.<sup>36</sup> Cross-border mergers and acquisitions offer benefits to firms by enabling them to quickly build a strong position in a new market, gain market power, increase firm size and spread risk.

Another likely trend is sharp growth in minority owned cross-border joint ventures and various kinds of nonequity forms of cooperative association.<sup>37</sup> Greenfield investment has remained relatively constant on a global basis over the past decade, being typically between US\$200 billion and US\$300 billion annually,<sup>38</sup> or 25 per cent of global FDI flows since the mid-1990s.<sup>39</sup>

The implication of these trends is that networks and alliances may attain more importance in investment attraction efforts.

In addition, VC provides an important means of accessing capital for emerging, enabling and high-tech sectors, and this capital is increasingly becoming globally mobile. This reinforces the high priority that the Government has given to promoting Australia as a VC investment location.

33 Economist Intelligence Unit 2001, op. cit., p. 86.

34 Ibid., p. 80.

35 Economist Intelligence Unit 2002, op. cit., p. 61.

36 Economist Intelligence Unit 2001, op. cit., p. 57.

37 Ibid., p. 86.

38 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., p. 1.

39 Economist Intelligence Unit 2002, op. cit., p. 67.

### Regional economic blocs

The European Union has experienced large increases in intra-EU flows (particularly in mergers and acquisitions). It is likely that the introduction of the single currency in 1999 has had a positive impact on FDI flows and that regional economic integration facilitates FDI flows.<sup>40</sup> These outcomes are supported by a survey of corporate decision-makers that found two-thirds of top executives singled out global or regional trade initiatives, or lack thereof, as likely affecting their investment decisions for 2002.<sup>41</sup>

*Inasmuch as a principal impetus of foreign investment is to globalise the various stages of production, FDI cannot prosper when the arteries of trade are blocked by protectionist policies.*<sup>42</sup>

Trends towards regional economic integration or protectionism are therefore important considerations in examining FDI flows.

## 1.5 Trends analysis

Ongoing analysis of trends and global flows is required at a detailed sectoral level to inform the strategic direction of the national investment framework. Patterns in FDI flows, along with global market conditions and sectoral FDI flows, need to be understood for a consideration of (1) the most effective allocation of Invest Australia's resources and (2) the relative priorities of various industry sectors. Some of this information is accessible through desktop research or in-market intelligence from the overseas network. Detailed information on sector FDI flows, however, will need to be commissioned or purchased from external agencies, to ensure the framework's priorities are determined in light of a thorough understanding of sectoral FDI flows, and resources are targeted appropriately.

### Key initiative

- More comprehensive and credible information on trends in global and Australian investment flows will be sought, particularly at the level of sectoral FDI flows.

<sup>40</sup> Ibid., p. 64.

<sup>41</sup> AT Kearney 2002, *FDI Confidence Index* — Global Business Policy Council, vol. 5, p. 4.

<sup>42</sup> Ibid., p. 6.



## 2. STRATEGIC DIRECTION

*We can't afford nor would it be sensible to promote everything we do.*<sup>43</sup>

The development and implementation of a whole-of-nation strategy for promoting and attracting foreign direct investment (FDI) into Australia demands close cooperation with State and Territory and industry stakeholders in the formulation of strategic priorities. This does not preclude individual stakeholders from pursuing their own specific strategic objectives, but ensures, wherever possible, common objectives are recognised and resources are coordinated appropriately.

The determination of sectoral priorities for investment promotion and attraction needs to be based on a sound understanding of the Government's industry development objectives, industry investment needs and market conditions, backed by high-quality research and analysis.

These factors also provide guidance for the most effective and efficient allocation of limited resources to investment promotion and attraction activities.

This chapter outlines strategic sectoral priorities as a basis for the consideration of priority markets and efficient resource allocation.

### 2.1 Taking a targeted approach

*Simply opening an economy is often no longer enough to attract sustained inflows of FDI and to upgrade its quality. Governments need to take a more active and targeted approach, especially if they seek to attract competitive and export-oriented FDI. And part of such an approach is that countries need to identify and develop, over time, distinct configurations of locational advantages.*<sup>44</sup>

The *World Investment Report 2001* outlines the evolving approach to the challenge of attracting FDI over recent years.<sup>45</sup> The first 'generation' of investment promotion policies established an enabling framework for FDI by reducing barriers for inward FDI, improving the standards of treatment for foreign investors and enhancing the functioning of markets.

The second generation of policies involved countries actively seeking to attract FDI through proactive marketing of their competitive strengths, generally by establishing national promotion agencies.

Many of Australia's competitors are well into the next phase of investment promotion and attraction. This third generation of policies involves the deliberate and consistent targeting of specific industry sectors and potential foreign investors in the light of a country's developmental needs and opportunities. The more targeted the effort, the greater are the chances that the information provided is relevant to the recipients' decision-making.<sup>46</sup>

This is the approach advocated in the national investment framework. It is consistent with international best practice and seeks to reverse the trend in Australia's declining share of FDI. It builds on the Government's macroeconomic and microeconomic reforms, and provides a renewed focus for the revamped Invest Australia. This approach is not an easy path, however; it requires sophisticated effort and appropriate resources.

*It must be recognised that such a targeted approach, and especially the development of locational brand names, is difficult, costly and takes time. Moreover, a more targeted and fine-tuned approach — which, in the end, seeks to match the specific functional needs of corporate investors with specific locational products — requires fairly sophisticated institutional capacities.*<sup>47</sup>

### 2.2 The strategic direction of the national investment framework

Invest Australia's activities cover the promotion, attraction and facilitation of productive FDI. They do not extend to the retention of existing investment in Australia by multinationals. Productive FDI for the purpose of Invest Australia's activities is defined in box 1.

43 Blackburne 2001, op. cit., p. ii.

44 UNCTAD 2001, op. cit., pp. 122–3.

45 Ibid., p. 123.

46 UNCTAD 2002, op. cit., p. 222.

47 UNCTAD 2001, op. cit., p. 124.

### Box 1: Defining productive foreign direct investment

Invest Australia's mission is to attract productive FDI into Australia to support sustainable industry growth and development. The type of investment that falls within this mission is:

- investment that will produce goods or services for Australian or export markets and/or will introduce or develop new technology or management expertise (productive investment);
- investment where the investing company will have an active interest in the operations and management of the business (direct investment).

The investment may be:

- a greenfield investment; or
- the expansion of an existing operation (brownfield investment), either as:
  - a stand-alone investment by the investing company; or
  - a joint venture/strategic alliance with an Australian company.

It is characterised by one or more criteria:

- the transfer of investment funds to Australia; and/or
- the creation of sustainable employment (or the safeguarding of existing jobs); and/or
- the introduction of new technology or management know-how; and/or
- the provision of international market access.

Acquisitions of Australian companies are within the scope of the mission if the acquisition:

- is agreed to by both the acquirer and the seller; and
- represents the first significant entry into Australia by the acquiring company or operating division.

The acquisition must also:

- prevent the closure of an operation and safeguard existing jobs; and/or
- result in a significant expansion of the existing operation; and/or
- lead to the introduction of new technology or know-how not previously available in Australia and thereby result in improved international competitiveness of the acquired company.

Invest Australia does not assist in the establishment of sales offices or retail/wholesale activities unless they have an identifiable strategic value (as with some information and communications technology (ICT) sales offices) or will lead to subsequent manufacturing operations, export market access or technology/management expertise transfer.

Investment that Invest Australia does not promote includes:

- the purchase of publicly listed shares;
- investment in real estate without an associated production or service provision; and
- privatisation projects and other investment projects being marketed internationally by any private sector intermediary.

Promotion, attraction and facilitation should be seen as a continuum of activities that may be required to secure an investment project. They can be broadly explained as follows:

- **Promotion:** Raising awareness of Australia as an investment location, getting Australia 'on the radar' and demonstrating Australia's competitive advantages as an investment destination. Mechanisms include promotional literature, advertising, events, sponsorships, websites and proactive in-market generation of investment leads.
- **Attraction:** Building on investment leads (generated either proactively or reactively), identifying potential investors and contacting them to explain Australia's company-specific value proposition. Mechanisms include cold calling, business matching, one-on-one presentations, the application of relevant Invest Australia tools (such as immigration agreements or other incentives) and the initiation of the foreign investment lead process.
- **Facilitation:** Accompanying the potential investor through the investment process. Mechanisms include steering project proponents through government approvals where appropriate, liaising with relevant governments, maintaining contact to monitor client needs and providing services to meet these needs.

Activities within the promotion, attraction and facilitation continuum need to be prioritised, however, to take account of:

- the Government's broad economic and industry development objectives;

## 2. STRATEGIC DIRECTION

- the investment needs of industry sectors, dependent on the industry's level of development; and
- global FDI market conditions, which act as a lens through which to assess the best means of achieving a balance between investment attraction and industry development objectives.

These three factors demonstrate competing tensions in the determination of the strategic direction of the national investment framework. With limited resources, Invest Australia must determine the mix of its activities that maximises the return for Australia, taking account of these competing tensions. Long-term industry considerations are largely investment demand driven, however. Unless there are favourable global investment conditions relevant to that industry, such as investment supply, then devoting attention to these areas would not be an effective use of resources. While some industry sectors may be priorities for industry development, consideration must be given to whether the international market is interested in locating business activity in these areas. The selection of priority industry sectors for investment attraction activities needs to be realistic and reflect current and probable market trends.

Accordingly, building on the analysis of global markets from chapter 1, the following provides a consideration of other factors – a consideration that ultimately determines the strategic direction of the national investment framework and the mix of activities to be undertaken by Invest Australia.

### 2.3 Consideration of the Government's objectives and industry needs

Invest Australia will always need to maintain a generic promotional effort to enhance awareness of Australia's fundamental investment attributes, but generic marketing is expensive and, at least in the short term, its returns are highly uncertain. Given limited resources and the need to effectively focus Australia's investment promotion and attraction efforts, the bulk of Invest Australia's activities will be targeted towards securing priority projects, as determined by the Commonwealth Government's economic and industry development priorities. Key priorities that are relevant to investment include the following:

- **Economic growth and employment:** FDI stimulates economic growth and contributes to higher living standards for Australians. It plays an important role in financing Australia's capital needs, creating jobs and generating exports. It also helps to build economies of scale necessary to compete in an increasingly competitive world economy.
- **The National Innovation System:** The Government considers that innovation – developing skills, generating new ideas through research and transforming them into commercial success – is a key to Australia's future prosperity. FDI that contributes to the national innovation system could include: technology transfer (of both codified and tacit knowledge); research partnerships (cooperative research centres, private and public research institutes, partnerships between firms); capital expenditure on equipment and infrastructure (such as clean rooms or wetlabs); and international links and alliances (research partnerships that are multinational).
- **Industry structures:** FDI has the potential to contribute greatly to industry development through, for example, the development of clusters, supply chains and the building of critical mass in certain industries. FDI may also contribute to industry skills development and training. Further, it can play a role in improving the availability and adoption of enabling technologies.
- **Regional development:** The Commonwealth Government is committed to ensuring a strong and resilient regional Australia, supporting community ideas, leadership and development. A part of that commitment involves working with communities to strengthen regional economic and social opportunities, and to sustain the productive natural resources and environment of regions. FDI has the potential to assist regional development, provided that rural, regional and remote areas are included in the consideration of possible investment locations. At the same time, it is important that regional FDI is consistent with regional development plans and community aspirations.
- **The National Research Priorities:** An objective of the National Research Priorities is to identify and address areas of strength, opportunity or need where an increase in research effort – cooperation, coordination or investment – would make a significant contribution to national wealth and/or wellbeing. Some FDI projects may contribute to the increase in research efforts in these areas.

Taking account of these themes, potential criteria for strategic investment projects that reflect the Government's broad economic and industry development objectives are outlined in box 2. These criteria provide guidance in the assessment of those priority industry sectors for investment attraction as identified by the Commonwealth Government.

## Box 2: Strategic project criteria

An investment project will be considered to be of strategic significance to Australia if:

1. The project will boost Australian industry innovation by:
  - increasing research and development (R&D) and commercialisation capability (for example, a manufacturing project includes an R&D lab that will link into Australia's R&D infrastructure, or a company establishes a new centre of excellence/expertise); and/or
  - the new application of skills and knowledge (for example, a project introduces a new business management practice); and/or
  - technology transfer (for example, a project introduces a new technology to Australia); and/or
  - cluster development (for example, a niche manufacturing project fills a supply chain gap).

Or

2. The project will have a significant net economic benefit for regional Australia, taking account of a region's investment needs.

Or

3. The project's estimated investment exceeds A\$50 million and makes a significant contribution to economic growth, employment and/or infrastructure.

Australia's comparative advantages in some industry sectors are well known, such as in the energy, mining and agricultural sectors. To give a pertinent example, a recent global survey of top corporate decision-makers found that primary sector investors rank Australia as the most attractive investment destination.<sup>48</sup> Accordingly, these sectors require comparatively less promotion effort than other sectors. Given their importance to the Australian economy, however, and their strong attractiveness to investors, Invest Australia must always maintain a strong effort in facilitating investment in these 'traditional' sectors.

Australia's strengths in other industry sectors — such as information and communications technology (ICT) and biotechnology — are not as well known. Invest Australia's efforts in these sectors will therefore require a full range of promotion, attraction and facilitation activities.

It is clear, therefore, that central to the strategic direction of the national investment framework will be the need for different emphases on promotion, attraction and facilitation, depending on the needs of different industry sectors and, given limited resources, focusing on those that most closely align with the strategic project criteria.

## 2.4 Drivers of investment location decisions

Understanding the drivers of investment decision-making is important in helping to determine Australia's competitive advantages and therefore the most effective allocation of resources across industry sectors. It is also important in formulating generic marketing messages and developing targeted campaigns for priority industry sectors.

The following is a preliminary analysis of the most significant drivers based on research to date. Ongoing research is required to allow further understanding of these drivers. Each driver will assume varying levels of importance in different industry sectors, which will be reflected in the sectoral investment attraction strategies developed by Invest Australia.

### Policy framework and business conditions

The policy environment is a significant factor in driving investment decisions. A macroeconomic environment characterised by strong economic growth, low inflation, low interest rates, low levels of industrial disputation and high productivity is a significant precondition for industry investment. As indicated in the introduction, Australia's strong performance in these fundamental areas is an important lever for attracting an increased share of global FDI.

Policies affecting labour and financial markets, taxation, business costs and the regulatory framework for business will also affect the location of FDI, the form an investment takes and the viability of investment decisions.<sup>49</sup> During the course of the Blackburne review, interview respondents noted that an efficient and honest public sector and effective markets were important influences on locational choice in Australia.<sup>50</sup>

Accordingly, Invest Australia will continue to place emphasis on Australia's strong economic credentials, sound business conditions and commitment to regulatory reform in its generic marketing activities.

48 ATKearney 2002, op. cit., p. 26.

49 I. A. Moosa 2002, *Foreign Direct Investment: Theory, Evidence and Practice*, Palgrave, New York, p. 265.

50 Blackburne 2001, op. cit., p. 7.

### Market access

Market access is critical as an investment location driver. Access to customers/clients with a relatively high per capita income is an important ingredient for a company's market growth. This factor plays a substantial role in the attractiveness of regions such as the European Union and the United States (large markets with high per capita income), and China (a huge population with the potential to be a large market). As trade barriers are progressively reduced and regional links grow, the significance of the national (versus the regional) market will diminish.<sup>51</sup> Even with these trends in mind, however, direct market access is still important for non-tradeable services, perishables, non-standardised products, products that require a quick response to consumer preferences and products needing extensive after-sales services.<sup>52</sup> Transport and telecommunications can only go so far in bridging the tyranny of distance.

The significance of market access as a driver is supported by a recent survey in which 55 per cent of respondents identified improved market access as the most important objective in foreign expansion.<sup>53</sup> The same survey showed that the United States, China, Brazil and the United Kingdom are the top four investment destinations for the future expansion of large multinational corporations.<sup>54</sup>

The implications for Australia of market access as an investment driver are mixed. Australia does have important trade and political links with a number of neighbouring Asian nations, providing Australia with some avenues of market access. It is also in the same time zone as many important Asian economies and provides many multinational companies with the capacity to work 24 hours around the clock, or 'follow the sun'. Further, Australia's high-tech yet small and affluent market makes it a useful test market for new products.

On the other hand, Australia is geographically distant from the major markets of Europe and North America, and has a relatively small domestic market for established products. While Australia is geographically close to some Asian markets, the European Union and the United States are often just as close. North American or European investors will often invest in Asian markets directly rather than seek indirect access through Australia. Further, the existence of certain trade barriers and cultural differences between Australia and Asian markets does not provide any clear advantages for European and North American companies to invest directly in Australia.

For many investors, Australia represents a distant and relatively small market. This lends weight to the argument that Invest Australia's activities should focus increased attention on those investment projects for which market access is not the major driver. This supports effort in, for example, the 'innovation-based'

priority areas within the national investment framework, where market access is not a driver. Further, Australia's small yet sophisticated market, with a tendency to adopt new technology, makes it an attractive test market for new products and business models.

Overall, it would appear that Australia's generic market access messages should focus on the nation's time zone advantages, test market advantages, and strong and ongoing trade links to many regions.

### Skills and labour costs

Traditionally, the most significant business input costs have been labour costs.<sup>55</sup> Yet while low-priced labour will continue to be an important factor for some investors, the need to adopt new technologies and skills for production suited to sophisticated and demanding markets will reduce the attractiveness of low wages, even in simple labour-intensive activities.<sup>56</sup> More emphasis is likely to be placed on the comparative wage costs of skilled labour, rather than on the availability of low-cost unskilled labour.

Survey evidence indicates that the availability of technical professionals is the most significant labour market driver, followed by the ability to hire management staff, the cost of labour and the ability to hire skilled labourers.<sup>57</sup> The relative importance of these drivers will vary depending on a company's size, the industry sector in which it operates and the nature of its activity.

Persons interviewed during the course of the Blackburne review also reported that access to a highly skilled, productive and competitively priced workforce was a significant influence on investment decisions.<sup>58</sup> In this context, Australia is in a position to promote the calibre of its educational institutions, the number of its university graduates in various fields and its comparative wage costs for professionals against those of other developed nations. Examples of Australia's competitive wage costs for professionals are shown in table 2.1.

51 UNCTAD 2001, op. cit., p. xvii.

52 Economist Intelligence Unit 2001, op. cit., p. 46.

53 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., p. 16.

54 Ibid., p. 21.

55 Economist Intelligence Unit 2001, op. cit., p. 47.

56 UNCTAD 2001, op. cit., p. 5.

57 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., p. 19.

58 Blackburne 2001, op. cit., p. 7.



**Table 2.1:** International city comparisons of total remuneration: base salary plus incentive and other cash payments, 2002 (A\$)

City	Senior systems analyst (IT)	Financial accountant	Senior R&D engineer	Assistant production manager	Office administration manager
Hong Kong	149 558	126 914	116 704	125 062	109 951
San Francisco	129 183	139 397	116 926	143 191	100 681
Frankfurt	100 939	133 685	139 778	107 714	92 852
Singapore	81 439	80 895	73 040	72 525	67 652
Sydney	79 166	88 348	74 807	71 559	59 427
Taipei	74 793	75 296	65 404	78 196	73 054
Shanghai	26 035	43 032	37 159	28 236	29 534

Source: New South Wales Government (using William M. Mercer Cullen Egan Dell data, January 2002)<sup>59</sup>

### Infrastructure

The availability and quality of infrastructure (for example, commercial, legal, educational, transport and communications infrastructure) has been demonstrated to be an important driver of investment decision-making. The reliability and quality of infrastructure and utilities has been rated as the fourth most important critical location factor.<sup>60</sup>

The importance of infrastructure does vary across industry sectors. Energy and water availability and costs are likely to be important for heavy industrial activity, for example, whereas telecommunications and broadband infrastructure is likely to be important for services and ICT activity. Similarly, wetlabs will be required for biotechnology, while computing capacity is an important ingredient for investment in bioinformatics. Of relevance to some sectors will be Australia's long-established and well-developed institutional and legal infrastructure covering physical metrology. Australia is advancing well in elements of chemical metrology and breaking ground in biological metrology.

Australia's infrastructure positioning therefore needs to be sector and activity focused. Given the quality of Australia's infrastructure across a range of sectors, however, this should also be reflected in generic marketing messages.

### Research and development

*Innovation concentrates where there is a high density of specialised resources for innovation: a large supply of highly trained scientists, engineers and technicians, proximity to universities and other research institutions. More important, perhaps, there has to be a presence of other innovative enterprises that create cluster benefits.*<sup>61</sup>

A survey undertaken in January 2002 of planned global FDI revealed that 8 per cent of planned projects were

research and development (R&D) facilities.<sup>62</sup> Evidence suggests that the bulk of R&D activity by multinational enterprises is performed within the developed world 'triad': the United States, Europe and Japan.<sup>63</sup>

It is significant, however, that Australia's positive innovation environment has encouraged a higher than average proportion of foreign-owned manufacturers to conduct R&D in Australia. The Organisation for Economic Cooperation and Development's (OECD) *Science, Technology and Innovation Scorecard* for 2001 showed that 38 per cent of foreign-owned manufacturers in Australia conduct R&D activities, compared with an OECD average of 18 per cent.<sup>64</sup>

A survey of R&D activity in Australia in 1999-2000 indicated that foreign-owned businesses accounted for 42 per cent of total R&D expenditure in Australia (A\$1.7 billion) and 41 per cent of total human resources devoted to R&D (10 747 person years).<sup>65</sup> Majority foreign-owned businesses dominated R&D activity for wholesale and retail businesses, although R&D in these sectors was comparatively low. The manufacturing industry contributed more than any other sector to total R&D activity in Australia, both in domestic and foreign-owned companies.

59 New South Wales Government 2002, *New South Wales Competitiveness Report 2002*, Sydney.

60 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., p. 19.

61 UNCTAD 2001, op. cit., p. 82.

62 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., p. 12.

63 Economist Intelligence Unit 2002, op. cit., p. 64.

64 OECD 2001, *Science, Technology and Innovation Scorecard 2001*, Paris, p. 194.

65 ABS 2002, *Australian Economic Indicators*, August, Canberra.

The same survey revealed that majority US-owned businesses made the largest contribution to R&D activity of all foreign-owned businesses (in expenditure and human resources). As well, businesses that were majority US-owned were the recipient of more than half of all the overseas-originating funds that flowed into Australia for R&D purposes. A likely interpretation of this information is that US firms (of a range of industries) locate in Australia for R&D purposes. If it were a characteristic of US firms to perform more R&D as part of their day-to-day business (compared with firms from other countries), then this would be reflected as a higher percentage of R&D operating costs of US firms relative to those of non-US firms. That the United States accounts for a greater proportion of R&D FDI than of FDI generally indicates that the United States sees Australia as having competitive advantage in R&D. This supports the case for placing resources in the United States to specifically attract further R&D investment to Australia, including major R&D facilities, by building on that perceived advantage.

### Agglomeration/clusters

There is evidence that FDI is spatially more clustered than other forms of production.<sup>66</sup> This may be due to two reasons: (1) the benefits of clustering (including knowledge spillovers between firms)<sup>67</sup> and/or (2) demonstration effects. Foreign firms face greater uncertainties than those facing domestic firms in a host country, so they have an incentive to follow the signals that previous investors send on the reliability of a particular location.<sup>68</sup> Multinational enterprises are likely to be increasingly drawn to clusters in the next decade or so.<sup>69</sup>

This trend towards clusters has significant implications for Australia. First, it indicates that clusters or potential clusters need to be identified through industry capability information and then appropriately marketed. Second, it signifies that investment attraction efforts need to focus on not only existing strong markets, but also potential markets in the long term. By having an early presence in markets with latent potential, Australia is well positioned to capture an important initial share of those developing markets, leading to subsequent growth through clustering activities.

Where Australia has the capability for a world-class cluster but not yet an 'anchor' first participant, suitable companies can be encouraged to establish a world-class facility in Australia.

### Access to natural resources

Access to natural resources has traditionally been a main driver for FDI, especially for the developing world. It is significant, however, that primary production has fallen in its share of world output.<sup>70</sup> In addition, a recent survey revealed that only 6 per cent of respondents considered sourcing raw materials as the most important objective of FDI location.<sup>71</sup>

*Primary resources will always draw some FDI, but with new contractual extraction and marketing arrangements led by national firms, and given the diminishing role of primary products in industrial activity, it is unlikely to be a dynamic draw.<sup>72</sup>*

As recognised in the Blackburne report, Australia will naturally attract investment in resource industries because it possesses world-class mineral deposits and world-scale productive farming,<sup>73</sup> and significant energy reserves could be added to that list. This is not to say that there should be no promotion of our resources base. Companies require technical data to reduce uncertainty and therefore risk. The technical promotion undertaken by Geoscience Australia and the Department of Industry, Tourism and Resources in cooperation with the States and the Northern Territory – for example, through the Petroleum Acreage Release program – is essential to attracting foreign investment. The degree of promotion required from Invest Australia, however, will be much less than in other areas. Additionally, attracting high value-added activities in the resource industries – such as light metals, die casting and mining technology services – will rely on marketing Australia according to other drivers. The presence of resources alone will not be sufficient to realise the full investment potential of these sectors.

This analysis supports the general proposition that Invest Australia's promotional activities should usually not focus on areas in which Australia already has well-known comparative advantages.

66 Economist Intelligence Unit 2001, op. cit., p. 47.

67 F. Barry, H. Görg & E. Strobl 2001, *Foreign Direct Investment, Agglomerations and Demonstration Effects: An Empirical Investigation*, Leverhulme Centre, Nottingham

68 Ibid.

69 Economist Intelligence Unit 2002, op. cit., p. 65.

70 Economist Intelligence Unit 2001, op. cit., p. 47.

71 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., p. 16.

72 UNCTAD 2001, op. cit., p. 5.

73 Blackburne 2001, op. cit., p. 37.

## Culture

A country's culture can influence the ease with which a foreign investor can establish business relationships and operate effectively in the marketplace. If an investment location has the same language and culture as those of the investor's home country, then this can offset other disadvantages that a host country may have as an investment location.<sup>74</sup>

Australia's success in attracting a substantial proportion of its FDI from the United States and the United Kingdom can be partly attributed to its historical ties with the United Kingdom and the fact that it shares a common language and similar culture with these markets. At the same time, Australia's emergence as a multicultural nation with a significant multilingual population is a competitive advantage for Australia as an investment destination as firms seek to compete in a global marketplace characterised by a broad range of different cultures.

## Living conditions/lifestyle

Given the qualitative and intangible nature of a country's lifestyle, it is generally not recognised in economic theory as a driver of investment decision-making. A recent survey of 191 multinational corporations, however, ranked crime and safety as the ninth most critical location factor (33 per cent).<sup>75</sup> Other living condition factors that also rated in the survey included the cost of living, housing availability, health care, the availability of international schools, and culture and recreation. While the business decisions of major investors will be driven primarily by economic considerations, the lifestyle of an investment location can affect the capacity of a firm to recruit and maintain high-quality expatriate staff.

According to the 2002 *World Competitiveness Yearbook* survey of senior corporate professionals around the globe, Australia's quality of life is ranked the third best in the world behind Austria and Luxembourg. The availability of affordable quality housing, high standards of health and education and favourable levels of personal security all contribute to our world-class quality of life. Australia's excellent climate and first-class tourism and recreational facilities are also hallmarks of 'life after work'. We should not, however, think that living conditions and lifestyle are a primary driver.

## Risk avoidance

There is an expectation that investment decisions are likely to be increasingly characterised by the avoidance of risk. The third most significant concern for US multinational corporation executives in October 2001 was the prospect of further terrorist attacks following the events of 11 September 2001.<sup>76</sup> There is evidence that the physical security of staff, war and civil disturbance were of high concern to corporate decision-makers even before those events.<sup>77</sup> Australia's stable political and social environment is therefore an important attribute for potential investors and will continue to be highlighted in Invest Australia's key marketing messages.

## Exchange rate

The exchange rate can be a driver in production and investment decisions. A strong currency will make exporting from a country less appealing and increase the cost of establishing operations. A weak currency will have the opposite effects. Given currency fluctuations throughout the world, however, the exchange rate is unlikely to be a significant determinant in long-term investment decisions.

## 2.5 Drivers and benchmarking research

Insight into the investment decision-making process and the operating methods of investors helps to target potential investors effectively. Investor behaviour and decision-making processes will vary significantly in each target market and across companies. This variation is constantly reinforced by the experience of the Invest Australia overseas network. Market research is required for each priority industry sector in each market, as well as individual target company profiles, to allow Invest Australia to provide highly targeted and relevant services.

To shape and refine Australia's investment promotion and attraction efforts, information is required on how Australia is benchmarked against its competitors in respect of key investment location drivers. This benchmarking information will identify the drivers for which Australia has a competitive advantage and enable Australia's marketing messages to be targeted more effectively. Detailed benchmarking research of this nature will be commissioned for sectors that are identified in the national investment framework for extensive promotion and attraction strategies. Wherever possible, such research will be conducted as a joint effort under the guidance of the National Investment Research Group (see chapter 7).

74 Economist Intelligence Unit 2001, op. cit., p. 47.

75 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., p. 19.

76 AT Kearney 2001, op. cit., p. 8.

77 Deloitte & Touche and the Multilateral Investment Guarantee Agency 2002, op. cit., executive summary.



### 2.6 Priority industry sectors

A sectoral approach to investment promotion and attraction allows an organisation to:

- be extremely focused on its target market;
- develop a clear understanding of key advantages in those sectors and the anticipated supply capacity to support investment;
- develop marketing materials that are well researched, targeted and relevant to the audience;
- be clearly defined in its calling program, with relationships developed at all levels within the sector;
- use these relationships to build networks that create active sources of investment lead referrals; and
- align staff who have a relevant interest/experience with a sector, to allow the development of strong industry support through trust and credibility.

The Commonwealth Government has already identified a number of industry sectors as priority areas for investment attraction through a range of mechanisms (for example, election commitments, action agendas and Australian Industry Ministers' meetings).

Taking account of trends in FDI, the Government's economic and industry development objectives, the associated strategic project criteria and the drivers of investment decision-making, the following sections contain a discussion of the approach to investment promotion, attraction and/or facilitation in various sectors.

#### Mining

Australia continues to rank highly as one of the world's leading mineral resource producers, and the minerals industry is the nation's largest export earner. The mining industry contributed A\$27.6 billion (5 per cent) to Australia's gross value added in 1999-2000 – an increase from A\$23.8 billion (4 per cent) in 1998-99.<sup>78</sup>

Given the high level of capital required to support mining operations, particularly in the case of greenfield projects, Australia has traditionally accessed a significant proportion of this capital through FDI. Australia will continue to naturally attract investment in the mining of minerals because it possesses world-class deposits.

In recognition of the importance of FDI to Australia's mining sector, Invest Australia will provide a high level of facilitation activities for projects in this sector, and will work to ensure projects that otherwise might locate in a competitor country are secured for Australia. Only limited promotional activities by Invest Australia are needed for this sector, given the technical promotion of prospectivity already undertaken by Geoscience Australia in cooperation with other stakeholders.

#### Light metals

In February 1998, the consultancy firm KPMG completed a benchmarking study for Invest Australia that concluded that Australia ranked highly as a location for a world-competitive, export-oriented light metals die casting industry.

A Light Metals Action Agenda for aluminium, magnesium and titanium has been developed to ensure Australia's light metals industries capture an increasing share of the global market, which is expected to experience significant growth over the next 20 years.<sup>79</sup> Through the action agenda, initiatives are being taken to move mineral-related activities up the value chain. Opportunities for growth in both the upstream and downstream sectors are being driven by increased global interest in light metals. The car industry, in particular, presents the major opportunity for greater use of light metals. The action agenda process has identified strategies to enable Australian firms to capture these opportunities, including recommendations on investment attraction. The action agenda identifies, for example, that investment promotion agencies and programs should:

- facilitate access to relevant information on taxation issues associated with investment in major projects, to inform industry investment initiatives; and
- promote their current services and programs to light metals sectors, to improve the reach of these existing mechanisms.

The light metals sector is a high priority for the Government. Invest Australia has provided attraction and facilitation services to many metal production projects, and it is expected that investor interest in these subsectors will continue. Given the varying needs and states of development of other light metals subsectors, Invest Australia's efforts will focus on investment facilitation activities and limited promotional activities in the high-value end of the production chain, particularly in the die casting industry.

78 ABS 2002, 'Australia now: mining introduction', <http://www.abs.gov.au/Ausstats/abs@.nsf/2.6?OpenView>, accessed October 2002.

79 Department of Industry, Tourism and Resources, Light Metals Action Agenda, [http://www.industry.gov.au/library/content\\_library/lmaa.pdf](http://www.industry.gov.au/library/content_library/lmaa.pdf), accessed November 2002.

## Energy

Energy is a vital input to all sectors of the economy, and the energy sector contributes substantially to the welfare and standard of living of Australians. Australia is relatively self-sufficient in fossil fuel and mineral energy resources, as reflected in our trends in energy production and use — for example, over two-thirds of energy production in Australia is exported.

Australia has been successful in winning significant levels of FDI in energy projects in the past and will continue to do so in the future, given our comparative advantage in fossil fuel and mineral energy resources. It is anticipated that Invest Australia's role will firmly remain focused on the facilitation of such projects and ensuring those that otherwise might locate in a competitor country are secured for Australia. As for minerals, only limited promotional activity is needed from Invest Australia, given the Acreage Release program undertaken by Geoscience Australia and other stakeholders. There may be a need, however, to promote Australian capabilities in particular areas or markets from time to time to capture particular opportunities.

## Liquefied natural gas

The Liquefied Natural Gas (LNG) Action Agenda (2000) spelt out the vision for Australia's LNG industry as endorsed by Australian governments and the LNG industry. This vision is for a strong, internationally competitive industry that is attractive to investors and contributes to the nation's economy. While recognising that industry has the lead role in marketing LNG, the Commonwealth Government will ensure Australia is promoted as a sound foreign investment environment for LNG and, where appropriate, will continue the promotion of equity investment opportunities to both national and international investors. Invest Australia will contribute to this objective, as part of its general energy sector activities.

## Renewable energy

The renewable energy industry in Australia has the potential to provide significant economic and environmental benefits, including employment opportunities in regional Australia. Present sales in the industry, excluding large hydro, are valued at around A\$330 million.<sup>80</sup> The Australian renewable energy industry has particular strengths in niche markets such as solar hot water, photovoltaics, waste-to-energy conversions, small-scale wind turbines and remote area power supplies (RAPS).

The Renewable Energy Action Agenda (June 2000) identified that the Government and industry would implement a strategy to improve access to investment capital and consumer finance to support industry growth. This effort includes promoting the industry to financiers and potential investors, and showcasing profit growth potential and commercial products. The

Mandatory Renewable Energy Target adopted by the Government — to boost renewable energy generated by an additional 9500 gigawatt hours by 2010 — also provides a powerful driver for investment in the industry.

The renewable energy sector remains a priority for the Government, and Invest Australia will undertake investment facilitation activities and limited promotional activities in this sector.

## Information and communications technology

The ICT industry is one of the fastest growing and most innovative sectors in the Australian economy, and it is a key enabling technology for many industries. Total ICT sector income grew by 28 per cent between 1995-96 and 1998-99 — double the growth rate for all Australian industry in the same period. In 1998-99, the ICT sector contributed 3.9 per cent to Australia's gross domestic product (GDP), and the domestic sector is growing strongly despite difficult operating conditions internationally. Total ICT sector income in 2000-01 was \$89.8 billion. Domestic production of ICT goods and services earned \$50.2 billion in 2000-01 — an increase of 25 per cent from earnings two years earlier. Approximately 4500 new firms entered the sector between 1998-99 and 2000-01.<sup>81</sup> In addition, Australia has a track record of high levels of ICT investment and a reputation for the early adoption of new ideas, as evidenced by its Economist Intelligence Unit ranking of sixth in the world for e-readiness.

ICT is also a significant component of the global economy, with global ICT expenditure valued at US\$2414 billion in 2001, or 7.6 per cent of world GDP (compared with 5.6 per cent in 1992).<sup>82</sup>

In April 2001, Australian Industry Ministers endorsed ICT as a priority area in which a national strategic approach would be taken for investment attraction. The Government's election policy, *Information Industries for the 21st Century*, also commits Invest Australia to work in cooperation with the Department of Communications, Information Technology and the Arts to develop and implement a coordinated ICT investment attraction strategy under a new 'Technology Australia' brand, which will promote Australia's innovation and knowledge economy credentials.

The Government is strongly committed to attracting FDI into the ICT sector. Australia's reputation and competitive advantages in ICT, however, are not as well known as those in our traditional sectors. Accordingly, the needs of the industry require the full range of Invest Australia services, from investment promotion and attraction to facilitation.

80 Department of Industry, Tourism and Resources, Renewable Energy Action Agenda 2000, *New Era, New Energy*, June, Ausinfo, Canberra, pp. 7–19.

81 Department of Communications, Information Technology and the Arts 2002

82 Ibid.

### Biotechnology

Biotechnology is a key technology for the future and an enabling technology for many industries. It holds the promise of improved health for Australians – particularly through the next generation of pharmaceuticals – as well as increased productivity, competitiveness and sustainability in the agriculture and food industries. The Commonwealth Government has recognised biotechnology as an emerging high-growth industry and has established Biotechnology Australia to develop and implement a national strategy.

One of the strategy's objectives is to attract foreign investment and development partners to add commercial value to Australian biotechnology R&D and to develop key overseas markets. In addition, it is recognised that there is a need to raise international awareness of the growing opportunities in Australia for cooperation and investment in biotechnology R&D and commercialisation in Australia.

In April 2001, Australian Industry Ministers endorsed biotechnology as a priority area in which a national strategic approach would be taken for investment attraction. Invest Australia will therefore implement a full suite of investment promotion, attraction and facilitation activities for this sector.

In November 2002, the Government launched the Pharmaceuticals Industry Action Agenda that identifies the promotion of increased investment and exports of pharmaceuticals goods and services as a major action. Invest Australia will pursue increased investment in pharmaceuticals through its biotechnology sectoral strategy.

### Nanotechnology

In April 2001, Australian Industry Ministers endorsed R&D as a priority area for investment attraction. As indicated earlier, however, a sectoral focus is needed to practically market Australia's capabilities with specialist knowledge. In addition to some sectors already identified, nanotechnology is highly R&D-intensive enabling technology and it provides the 'sectoral focus' required.

Nanotechnology has existing and emerging research strengths, and it is an area in which Australia has the potential to provide international leadership. Most importantly, nanotechnology has the potential to deliver significant economic and social benefits to the Australian community, particularly in the area of nano- and bio-materials and photon science and technology. This potential is supported by the Australian Research Council's decision to focus on these fields as priority research areas.

Global spending on nanotechnology over the past two years is estimated at US\$2 billion. The US National Science Foundation predicts that the total market for nanotechnology products and services will reach US\$1 trillion by 2015.<sup>83</sup> Australia is well placed to benefit from this newly developing technology, with Australians at the forefront of global research.

Investment in nanotechnology will be critical for positioning Australia for the future. Given the 'sunrise' nature of this sector, with many early developments, Invest Australia's role relates to increasing awareness of Australia as an R&D location as well as undertaking attraction and facilitation activities specific to nanotechnology.

### Environment industry

The Australian environment industry employs 127 000 people in 2000 firms and accounts for 1.6 per cent of GDP. The global market for environment industry products and services is estimated at US\$500 billion.<sup>84</sup>

The Environment Industry Action Agenda identifies that governments and industry will work together to promote the commercialisation of Australian R&D by:

- encouraging small and medium-sized enterprises (SMEs) and researchers to obtain and use the knowledge needed to become investment ready; and
- providing the investment community with information on business prospects and initiating business matching.

Further, it identifies that industry will work with governments to prepare a 'technology roadmap' of the environment industry, to identify the critical enabling technologies from which enterprises can seize emerging business opportunities over the next five to 10 years, identify future technology gaps and needs, and establish investment priorities.

Attracting foreign investment in the environment industry remains a priority for the Government. Specifically, there would be a role for Invest Australia to provide information to the investment community to inform them of business opportunities and initiate business matching.

<sup>83</sup> US National Science Foundation 2001, *Societal Implications of Nanoscience and Nanotechnology*, March.

<sup>84</sup> Environment Industry Action Agenda 2001, *Investing in Sustainability*, 2001, p. 7, at [http://www.industry.gov.au/library/content\\_library/enl.pdf](http://www.industry.gov.au/library/content_library/enl.pdf), accessed November 2002.

## Heavy engineering and infrastructure

In April 2000, it was estimated that the value of current projects involving private sector investment in economic infrastructure in Australia was approximately A\$38 billion, and combined public and private sector expenditure on an annual basis was A\$18 billion.<sup>85</sup> In its response to the Heavy Engineering and Infrastructure Action Agenda (May 2002), the Government identified its support for the National Infrastructure and Engineering Forum's development of a marketing strategy focused on promoting Australian heavy engineering capabilities to major international decision-makers. The Forum will provide leadership for the strategy, which will be linked to the activities of Invest Australia and Austrade.

The Government is supportive of the leadership role in promotion and attraction that is being demonstrated by industry in this area. Invest Australia could undertake investment facilitation activities in heavy engineering and infrastructure that support this effort.

## Spatial information

*Positioning for Growth*, the Spatial Information Industry Action Agenda (September 2001), notes that the Australian spatial information industry has a turnover in excess of A\$1 billion. It also noted that annual global expenditure on spatial information is around A\$34 billion and growing at an average annual rate of 20 per cent.

The action agenda identified that industry organisations (including the newly formed Australian Spatial Information Business Association) would promote the assistance that Austrade and Invest Australia can offer to firms in overseas markets. It also identified that Government Ministers would actively promote Australian spatial information businesses, where appropriate, in meetings with representatives of overseas governments and agencies.

Again, the Government is supportive of the leadership role in promotion and attraction that is being demonstrated by industry in this sector. Invest Australia will undertake investment facilitation activities in spatial information that support this effort.

## Forest and wood products

The three principal wood-based sectors (forest growing and harvesting, wood manufacturing and paper production) had an industry gross value add of more than A\$5 billion in 1998-99, contributing around 1 per cent to Australia's GDP.<sup>86</sup> The Forest and Wood Action Agenda (May 2000) identified that an integrated approach to investment development would be pursued, including the implementation of an integrated National Investment Development Strategy.

The Government has agreed that Invest Australia should assist in the development of clear investment guidelines, which are to be provided to industry and potential industry participants.

Invest Australia will undertake investment facilitation activities in forest and wood products and limited promotional activities.

## Food

As part of its 2001 election commitments, the Government identified that the food industry has tremendous potential for growth and already generates a growing trade surplus worth more than A\$9 billion annually. Unless opportunities are seized now, however, the industry risks falling behind in a highly competitive global market. To succeed in this market, the Australian industry will need to enhance its skills, become more innovative and attract major investment.

The National Food Industry Strategy identifies that governments and industry will encourage the food industry to seek full use of current venture capital (VC) schemes and make innovation investment funds more aware of the benefits of investing in the food technology, processing and related service industries.

Invest Australia will work with the Department of Agriculture, Fisheries and Forestry – Australia to facilitate investment activities in the food industry.

## Venture capital sector

The Government announced in September 2001 its intention to extend tax concessions to certain non-resident investors in Australian VC and to provide a world's best practice investment vehicle for non-resident investment. The new arrangements will provide for VC limited partnerships with flow-through taxation treatment. The proposed taxation concessions will apply principally to investors from the United States, the United Kingdom, Japan, Germany, France and Canada.

Following promulgation of legislative arrangements to give effect to the proposed changes, Invest Australia has been given the task of marketing, in conjunction with industry, this initiative in relevant markets. Within existing resource constraints, this campaign is expected to target 'gatekeepers' in the VC industry, investors in the funds (such as pension funds) and VC managers.

Marketing mechanisms that may be used include publishing and distributing promotional literature, optimising the use of high-level Ministerial visits, targeting VC-specific events, undertaking website marketing and organising one-on-one meetings with potential investors.

85 Heavy Engineering and Infrastructure Action Agenda Industry Champions Group 2000, *Competing in the Global Market — Report to Government*, April, p. 7, at [http://www.industry.gov.au/library/content\\_library/heCompetingInTheGlobalMarket2.pdf](http://www.industry.gov.au/library/content_library/heCompetingInTheGlobalMarket2.pdf), accessed November 2002.

86 Agriculture, Fisheries and Forestry - Australia, *Forest and Wood Products Action Agenda 2000, Forest and Wood Futures — An Action Agenda to Pursue the Vision for Australia's Forest and Wood Products Industry*, p. 3, at [http://www.affa.gov.au/corporate\\_docs/publications/pdf/forestry/action\\_agenda/final-report.pdf](http://www.affa.gov.au/corporate_docs/publications/pdf/forestry/action_agenda/final-report.pdf), accessed November 2002.

**Table 2.2:** Summary of sectoral priorities

Invest Australia priorities			Other priorities
Facilitation priorities	Extensive Promotion & Attraction Strategies	Limited Promotion <sup>(a)</sup>	
<ul style="list-style-type: none"> <li>• Mining</li> <li>• Energy (including Liquefied Natural Gas)</li> </ul>	<ul style="list-style-type: none"> <li>• ICT</li> <li>• Biotechnology (including Pharmaceuticals)</li> <li>• Nanotechnology</li> </ul>	<ul style="list-style-type: none"> <li>• Renewable energy</li> <li>• Environment industry</li> <li>• Forest and wood products</li> <li>• Light metals</li> </ul>	<ul style="list-style-type: none"> <li>• Heavy engineering and infrastructure</li> <li>• Spatial information</li> <li>• Film</li> <li>• Food</li> <li>• Finance</li> </ul>

(a) Subject to the provision of comprehensive industry capability information by other agencies or industry groups.

### Film

The Blackburne report estimated that the Australian Film and Television industry contributes A\$1.6 billion annually to the Australian economy. AusFILM has been allocated an annual budget of A\$1 million (indexed) for four years to market Australia as a location for foreign film production in Australia. The funding provided will facilitate access to film industry facilities across Australia, providing clear information on all Government regulatory requirements. Foreign producers will have access to coordinated information, ranging from taxation arrangements to locations and production facilities. Further, AusFILM will be able to more actively market Australia as a location for production.

The Blackburne review identified infrastructure limitations within the Australian film industry. Australia has only a handful of post-production firms capable of undertaking work on a Hollywood scale, and it needs more sound stage facilities if it is to attract a higher proportion of contestable US production. These are areas in which further investment could help to develop the industry.

Invest Australia will support AusFILM in facilitating productive FDI in Australian film industry projects.

### Finance

Financial services is the third largest industry in Australia. In 1999-2000, it contributed almost A\$42 billion to the Australian economy — more than 7 per cent of GDP. There are over 4000 significant financial institutions operating in Australia, controlling over A\$1.7 trillion in financial assets. The sector employs 330 000 people, accounting for over 3.5 per cent of the Australian workforce.<sup>87</sup>

The Government established Axiss Australia in 1999 to position Australia as a global financial services centre in the Asian time zone. Axiss provides international financial institutions with a one-stop information and facilitation shop designed to streamline entry to, and ongoing operation in, the Australian financial services sector.

Invest Australia will cooperate with Axiss Australia in the facilitation of financial services. As noted in the Blackburne report, Axiss Australia's activities are to be reviewed before June 2004, with consideration being given to their subsequent absorption by Invest Australia.

### Summary of sectoral priorities

In view of Australia's recognised comparative advantages, it is expected that Invest Australia's facilitation services will continue to focus on the mining and energy sectors. Facilitation services, however, will be provided to any potential proponent of any investment project, regardless of sector. These services include accompanying the potential investor through the investment process by, for example, assisting with approvals processes and liaising with relevant governments.

There are many industry sectors in which proactive and extensive promotion and attraction strategies would be beneficial. As indicated by Blackburne, however, 'we can't afford nor would it be sensible to promote everything we do'. Drawing on the preceding analysis, it is clear that three sectors stand out for the most efficient and effective application of Invest Australia's limited promotion and attraction resources: ICT, biotechnology and nanotechnology. These three sectors clearly meet the strategic project criteria and are essential enabling technologies. Importantly, ICT and biotechnology already have been prioritised by Australian Industry Ministers for a national approach. These three sectors will therefore be the priority areas for implementation of extensive promotion and attraction strategies. These priorities will be reviewed at the end of three years. The promotion and attraction strategies will incorporate relevant sectoral specific research, an integrated marketing strategy (including events and missions) and a focus on lead generation and company targeting.

87 Axiss Australia 2001, *Executive Briefing: Financial Services in Australia*, p. 6. at [http://www.axiss.com.au/content/pubs/executive\\_briefingsfinance.finance.pdf](http://www.axiss.com.au/content/pubs/executive_briefingsfinance.finance.pdf), accessed November 2002.



Other industry sectors, identified above, will be the subject of limited promotion activities, incorporating basic capability marketing through Invest Australia's website and a publication based on existing relevant research such as comprehensive capability information provided by other agencies or industry. Such information currently exists for the renewable energy and environment industries.

Investment attraction activities in some sectors identified above are the primary responsibility of other agencies or industry. Invest Australia will support these activities where appropriate.

Reflecting the above analysis, a summary of Australia's sectoral priorities for active investment work is contained in table 2.2.

Resource levels significantly affect the degree to which these investment promotion, attraction and facilitation activities can be undertaken. This is the case even for the development of promotion and attraction strategies for the priority sectors, where additional resources would mean that more comprehensive research and marketing activities could be undertaken. With limited resources, the challenge is to take the strategic direction that delivers on the national investment framework's objectives, including the need to maximise the benefits of FDI (particularly in terms of quantity and quality of investment attracted to Australia) in the most efficient and cost-effective manner.

### Sectoral research

Within priority sectors, investment attraction strategies must be developed based on a detailed knowledge of Australia's industry capabilities, how Australia is benchmarked against its competitors and the approach to investment attraction adopted by Australia's competing investment locations. This information is critical for delivering a tailored, proactive approach to investment lead generation.

Research on Australia's industry capabilities and competitive strengths, benchmarking and competitor research is already undertaken via a range of mechanisms, including in-house desktop research, in-market intelligence from the overseas network, and partnerships with States and Territories and other government agencies.

Commonwealth Government agencies with industry development responsibilities have a key role in the national investment framework, by providing detailed capability information on priority sector industries and identifying opportunities for new investments. This work will be supplemented through cooperative efforts with States and Territories and industry associations wherever possible. Such detailed capability information will include information on key Australian companies, Australia's industry base (including the size of an

industry, its national/international markets, current and future cluster-building activities, new firm creation and industry links), industry and technology opportunities for Australia, skills/knowledge availability in Australia (including the current workforce and courses), Australia's R&D base (including public and private research institutions/incubators/technology parks, R&D costs and national/international R&D infrastructure links) and industry initiatives (including government programs).

The research effort on sector-specific drivers, the benchmarking of Australia against key competing investment locations and competitor location activities needs to be enhanced, particularly in priority industry sectors for investment attraction. Accordingly, Invest Australia will commission market research at a detailed sectoral level for the priority areas of ICT, biotechnology and nanotechnology (see section 2.5, 'Drivers and benchmarking research').

## 2.7 Review of framework priorities

The Government's economic and industry development priorities are not static. New opportunities arise and others recede as areas of competitive advantage change and new technologies emerge. Processes therefore need to be put in place to enable Invest Australia, in consultation with relevant agencies, to identify new priority sectors, refine investment attraction efforts, reallocate resources and ensure efforts are focused on projects that can best deliver on the objectives of the national investment framework. Through its ongoing research agenda and in response to regular intelligence from its overseas network, Invest Australia will ensure the directions of the framework are dynamic and responsive to changes in the investment environment.

Relative priorities may change in accordance with shifting economic and industry development objectives of the Government. Such change will be influenced by the Government's response to various action agendas under development (Aerospace, Aquaculture, Electronics, and Mining Technology Services) and the Tourism White Paper.

It will also be necessary for Invest Australia to continually review priority sectors in response to changes in market conditions. These market conditions will include, for example, changes in the drivers of investment location decisions and patterns in FDI flows. By considering the Government's objectives and industry needs through the lens of current market conditions, Invest Australia can make judgements about the most effective and efficient use of its limited resources.

A formal review of the strategic direction of the national investment framework will be conducted after three years.

### 2.8 Whole-of-nation cooperation on framework priorities

Through the National Investment Advisory Board (NIAB), the Australian Industry and Technology Ministers' Council and industry consultations, Invest Australia will seek cooperation from the States and Territories and industry on a whole-of-nation approach to the priority areas of the national investment framework (see chapter 7).

It is recognised that different States and Territories may have different economic and industry development objectives from those of the Commonwealth Government, reflecting the specific needs of those jurisdictions. Cooperation on the national investment framework priority areas will not preclude individual jurisdictions devoting resources to their own areas of priority; neither will it subsume the individual marketing efforts of States and Territories within a national approach. As previously indicated, however, Australian Industry Ministers have already prioritised ICT, biotechnology and R&D for investment attraction.

Foundations for this whole-of-nation approach are already well established in the ICT and biotechnology sectors through the ICT Events National Committee and the Biotechnology Events National Committee, in which Commonwealth, State and Territory governments and industry coordinate a national presence at key events.

As discussed further in chapter 7, recent cooperation agreements among States on investment attraction indicate that the benefits of national cooperation are understood and are being acted upon. The NIAB will therefore enhance a whole-of-nation approach to national investment framework priorities. Industry support for the priorities will then be sought through Invest Australia's industry consultation mechanisms.

#### Key initiatives

- Invest Australia will ensure investment promotion and attraction activities are targeted towards priority industry sectors that reflect Government objectives, industry needs and market conditions.
- In-house desktop research and analysis will be supplemented by specifically commissioned market research to provide more comprehensive and credible information on Australia's industry capabilities and strengths, the drivers of investment decision-making and the benchmarking of Australia against its competitors in respect of the ICT, biotechnology and nanotechnology industries. This research will be coordinated through the National Investment Research Group.
- Central to the strategic direction of the national investment framework is the need for different emphases on investment promotion, attraction and facilitation depending on the needs of different industry sectors. Invest Australia will:
  - provide primarily investment facilitation services for the mining and energy sectors, including the LNG sector;
  - continue to provide facilitation services to potential investors in all other sectors;
  - develop and implement extensive promotion and attraction strategies in the ICT, biotechnology and nanotechnology sectors;
  - undertake limited promotion activities for the renewable energy, environment, light metals, and forest and wood products sectors, subject to the provision of detailed industry capability information; and
  - support, where appropriate, the investment-related activities of other Government agencies and industry organisations in the heavy engineering and infrastructure, spatial information, film, food and finance industries.
- Invest Australia will promote in relevant markets the Government's VC tax concessions and the investment opportunity presented by the Australian VC industry.
- Axiss Australia's activities will be reviewed before June 2004 with consideration being given to their subsequent absorption by Invest Australia.
- Invest Australia will seek a whole-of-nation approach to the national investment framework's sectoral priorities through the National Investment Advisory Board (NIAB), the Industry and Technology Ministers' Council and industry consultations.



### 3. MARKET AND RESOURCE PRIORITIES

*In order to gain efficiencies yet develop an effective offshore network, it is recommended that overseas resources including the Investment Commissioners be organised into three key investment teams – North America, Asia and Europe – reporting to Invest Australia.<sup>88</sup>*

In addition to determining priority industry sectors for investment attraction, it is necessary to consider priority markets for investment attraction so resources can be allocated efficiently. This requires a detailed analysis of the geographic breakdown of foreign direct investment (FDI) flows for each priority industry sector, to determine which markets are best aligned with the priority sectors. As indicated in chapter 1, however, while data on FDI flows into Australia by source country is available, the breakdown does not extend to many countries of strategic interest. In addition, sectoral data that is available breaks down FDI flows into only very broad sectors. To target Invest Australia's resources and activities effectively, more detailed sectoral breakdowns of investment flows are required. The following discussion of resource allocation by market accounts for available market information and sectoral intelligence from Invest Australia's overseas network.

#### 3.1 Allocation of Invest Australia's onshore resources

Onshore staff are primarily dedicated to providing the essential 'back room' services for the overseas network to operate effectively. Their activities cover research and analysis, liaison with industry and the State and Territory governments, marketing and communications support, Invest Australia program delivery and Ministerial support.

In addition, a significant proportion of onshore staff activity (approximately 25 per cent) is devoted to supporting the Strategic Investment Coordination (SIC) process (including detailed project analysis) and facilitating major projects. Given the ongoing support by Invest Australia for the SIC process, and the continuing high priority afforded to the facilitation of major projects, this allocation of onshore activities will continue.

#### 3.2 Allocation of Invest Australia's offshore resources

Invest Australia's overseas network promotes Australia's opportunities in market and works with potential investors to attract FDI to Australia. Compared with the presence in overseas markets by Australia's major competitors for investment attraction, Invest Australia's existing overseas network is very modest. The United Kingdom, France, Singapore, Sweden, Ireland, Canada and Korea all have a greater geographic spread than Australia in their overseas investment networks.

In all locations, senior offshore staff — particularly at the highest level of investment commissioners — require both management and marketing expertise. They are required to manage their regional network of offices efficiently and to provide high-level marketing representation.

Almost all of Invest Australia's overseas representatives are full-time, locally engaged staff, rather than Australian staff on postings. In most cases, this is a cost-effective means of employing qualified individuals and will continue to be the basis for employing the majority of Invest Australia's overseas network. The costs and benefits of employing locally engaged staff rather than Australian-based staff overseas will be carefully monitored in all cases. In employing locally engaged staff, ensuring familiarity with Australian conditions as well as local markets is an important consideration.

Opportunities also exist to service small, new or emerging markets on a part-time or 'fly-in, fly-out' basis. This approach has been explored very little by Invest Australia in the past, but will be more actively pursued in the future.

In addition, all Commonwealth agencies with a presence overseas have a collective role in ensuring Australia's national interests are represented in a consistent and cost-effective manner. Given the extensive overseas networks of the Department of Foreign Affairs and Trade and Austrade, partnerships with these agencies will be essential in extending Invest Australia's reach in the global market. These partnerships are elaborated in chapter 7.

Given these issues, the following sections are an analysis of the allocation of Invest Australia resources to each market.

<sup>88</sup> Blackburne 2001, op. cit., p.(v).

### 3. MARKET AND RESOURCE PRIORITIES

#### Europe

Europe is a sophisticated and competitive market, but remains a very heterogeneous region in terms of Australia's FDI attraction effort. This is a result of the wide disparities in economic development, industrial structures, economy size, levels of income and historical links.

Current Invest Australia representation in Europe is as follows:

- Frankfurt is staffed by the Investment Commissioner for Europe, an investment development director and a research and administrative assistant to the Investment Commissioner. The office is responsible for potential investment from Germany, Switzerland, Austria, Scandinavia, Central Europe, Italy and Israel.
- London is staffed by a senior investment manager and an investment manager. The office is responsible for potential investment from the United Kingdom, the Republic of Ireland, the Netherlands and Spain.
- Paris is staffed by a senior investment manager, who has responsibility for potential investment from France, Belgium and Luxembourg.

Taken collectively, Europe is the largest investor in Australia. Total FDI stocks held by European investors amounted to A\$91.5 billion at 30 June 2002.

**Table 3.1: European investment stocks in Australia, 30 June 2002**

Country	Stock of investment (\$ million)
United Kingdom	49 014
Netherlands	9 706
Germany	8 655
Switzerland	6 541
France	5 421
Belgium and Luxembourg	3 154
Sweden	1 233
Ireland, Republic of	924
Italy	187
Europe — other	6 615
<b>Total</b>	<b>91 450</b>

Source: Data from ABS<sup>89</sup>

Over the past five years, the United Kingdom, the Netherlands, France, Germany, Switzerland, Belgium/Luxembourg and the Republic of Ireland have also featured in the top seven sources of FDI inflows to Australia (see table 1.3 in chapter 1). The United Kingdom is the second largest source of Australia's FDI stocks and, in recent years, has been the largest source of FDI inflows. Of particular interest to Australia, given the priority sectors identified for the national investment framework, is that the United Kingdom has one fifth of the European Union's biotechnology companies (along with the second largest number of biotechnology start-ups and the largest cluster in Europe), and the UK software and information technology services market was valued at £20.4 billion in 2001.<sup>90</sup> The United Kingdom will therefore remain a priority market for Invest Australia, particularly in terms of the information and communications technology (ICT) and biotechnology sectors.

Many large French groups with international exposure have already invested in Australia, and French small and medium-sized enterprises (SMEs) are increasingly interested in investing in Asia. France has the third largest biotechnology industry in Europe, having 300 biotechnology companies (mainly SMEs), with a turnover of approximately €2.6 billion. In addition, France has strong venture capital (VC) and ICT industries.<sup>91</sup> France will be a priority market for Invest Australia and priority sectors will include ICT and biotechnology.

Most of the German multinationals are already present in Australia. German SMEs, however, continue to prefer to invest in the United States directly or in larger Asian markets. Investment by German SMEs would benefit Australia through access to their leading edge technology. Evidence indicates that Germany has a strong biotechnology sector, with the largest number of biotechnology companies in Europe and 16 biotechnology clusters. Germany is a world leader in renewable energy technology (especially wind generation) and represents 21 per cent of the Western European ICT market.<sup>92</sup> Given the sectoral priorities of the national investment framework, Germany will be a key market for Invest Australia. The priority sectors within Germany are ICT and biotechnology, and opportunities to attract nanotechnology projects will also be actively explored. Given the strong interest in renewable energy, this will be a strong opportunity for facilitation activities. In addition, Israel will be serviced out of Germany (with a focus on the biotechnology and ICT sectors).

89 ABS International and Financial Accounts Data Management Unit 2002, op. cit.

90 In-market intelligence from the Investment Commissioner for Europe, 2002

91 Ibid.

92 Ibid.

Investment from the smaller economies of Benelux (Belgium, the Netherlands and Luxembourg), Scandinavia (Sweden, Denmark, Norway, Finland, Iceland) and Switzerland into Australia has largely been carried out by multinationals. Both Switzerland and Scandinavia have a prominent place in the EU biotechnology industry, with sizeable numbers of companies clustered around key universities, research and regulatory institutes. Also, the Scandinavian countries are world leaders in the fields of mobile telephony/wireless. The Netherlands has a strong ICT sector (with 35 per cent of FDI into the Netherlands being in ICT) and Switzerland has excellent manufacturing skills across all sectors.<sup>93</sup> These markets clearly have close synergies with the priorities of the national investment framework and, within resource constraints, opportunities in these countries should be actively pursued.

Companies from Italy and Spain have traditionally looked to investing in Europe or the Americas, but have recently discovered Asia. Their knowledge about Australia is limited and the benefits of investing in Australia are universally poorly recognised. FDI stocks in Australia held by Italy and Spain are relatively low and reflect this information failure. Given both countries are traditionally large sources of global FDI outflows, specific effort would be needed to increase investment from these countries.<sup>94</sup>

Given the importance of Europe as a source of foreign direct investment for Australia, consideration will be given to rebalancing Invest Australia's overseas presence to capture opportunities in Benelux, Scandinavia, Switzerland, Italy and Spain.

### North America

Despite the recent disinvestment in Australia by US investors, the United States continues to be Australia's largest single source of FDI. The stock of foreign direct investment from the United States was A\$62.8 billion at 30 June 2001. Current Invest Australia representation in North America is as follows:

- New York is staffed by an investment development director, an investment manager and an investment assistant. The office is generally responsible for proactive activities in the eastern United States.
- San Francisco is staffed by an investment development director and an investment manager. The office is responsible for proactive activities in the western United States.

Canada is serviced on a reactive basis by either the New York office or San Francisco office. Central and South America are not serviced directly by any Invest Australia staff. The investment commissioner position in North America has been unfilled since the end of June 2002.

As indicated in section 2.4, majority US-owned firms were the largest recipient of overseas-originating funds that flowed into Australia for research and development (R&D) purposes. This signifies the importance of the United States as a source of R&D investment. The United States has the largest number of biotechnology companies in the world, with 1457 in 2001.<sup>95</sup> As such, the Invest Australia North America operations will primarily focus on the proactive promotion, attraction and facilitation of investments in the Government's high-technology priority sectors — specifically, the ICT, biotechnology and nanotechnology sectors.

Given the size of the US market, representation at the investment commissioner level is considered appropriate. This position was previously located in New York, but could be located in San Francisco or potentially Chicago, where Invest Australia has previously had a representative. There is no ideal location for Invest Australia offices in the United States, so cost, the availability of suitably qualified staff and proximity to transport hubs will continue to influence the placement of personnel. Staff in the United States are likely to have both geographic and sectoral responsibilities.

### Asia

Asia is a large and very diverse region. Current Invest Australia representation in Asia is as follows:

- Tokyo is staffed by the Investment Commissioner for North Asia, a senior investment manager, an investment manager and an investment officer. The post has responsibility for Japan and Korea. Taipei reports through the Investment Commissioner in Tokyo.
- Taipei is staffed by a senior investment manager and an investment assistant.
- Hong Kong is staffed by the Investment Commissioner for Hong Kong/China and an investment manager. Beijing and Shanghai report through Hong Kong.
- Beijing is staffed by an investment manager.
- Shanghai is staffed by an investment manager.
- Singapore is staffed by a senior investment manager.

There is no direct representation in South Asia, in South-east Asia outside Singapore or in the Middle East.

<sup>93</sup> Ibid.

<sup>94</sup> Ibid.

<sup>95</sup> Ernst & Young 2002, *Beyond Borders – The Global Biotechnology Report 2002*, p. 55.

### 3. MARKET AND RESOURCE PRIORITIES

In recent years, the Asian region has been less significant than the European Union and North America as a source of investment, both globally and for Australia. In strategically positioning Invest Australia's resources, however, it is important to consider not just the current state of play in global FDI, but also the historical significance of Asia as a source of FDI and Asia's potential in terms of the priority sectors of the national investment framework.

Japan, for example, has historically been a significant investor in Australia. In 1989, Japan accounted for nearly 20 per cent of total FDI stocks in Australia,<sup>96</sup> although this share had declined to 7.5 per cent (or A\$15.7 billion) as at 30 June 2002.<sup>97</sup> This still makes it the fourth largest source of FDI stocks in Australia. Given this traditional contribution of Japan to Australia's FDI inflows and stocks, it is important for Invest Australia to maintain a presence until the Japanese economy recovers. In-market intelligence from Invest Australia's overseas networks indicates that investment opportunities exist from Japan's ICT and biotechnology sectors through a proactive promotion and attraction effort. Sectors such as food, minerals and energy (including renewables) remain good investment prospects from Japan, which will require a reactive facilitation service given Australia's well-known comparative advantages in these sectors.

South Korea, which is covered by the Tokyo post, also has potential as a source of investment for Australia. (Data is not available for the size of the FDI stocks that South Korean companies hold in Australia.) In recent years, much of South Korea's relatively limited outward FDI has come from the manufacturing sector and has favoured China and the United States.<sup>98, 99</sup> Nevertheless, Invest Australia's overseas network has identified opportunities in South Korea in the priority sectors of ICT, nanotechnology and biotechnology which would require a proactive promotion and attraction effort, as well as facilitation opportunities in the resource extraction and processing sector. Given scarce Invest Australia resources, these opportunities can be serviced by 'fly-in, fly-out' teams operating from Japan.

Singaporean investments in Australia at June 2002 accounted for A\$15.9 billion in FDI stocks.<sup>100, 101</sup> Invest Australia's overseas network has identified promotion and attraction opportunities in Singapore in the sectors of ICT and biotechnology, as well as facilitation opportunities in the food and energy sectors. The Singapore post of the overseas network is best placed to deal with a significant amount of investor interest emanating from other South-east Asian countries, particularly Malaysia,<sup>102</sup> although current resources do not permit this proactive approach. In addition, the Singapore office is well placed to influence the decision-makers of multinationals at the regional level.

Taiwan had outward FDI stock of US\$49.2 billion in 2000, of which much was invested in mainland China.<sup>103</sup> Australian Bureau of Statistics (ABS) data shows that Australia has had little investment from Taiwan in recent years, and no figures are available for Taiwanese stocks in Australia. In-market intelligence from the overseas network, however, indicates some investment opportunities in the food, ICT and biotechnology sectors.

ABS data is not available on Chinese FDI stocks in Australia. The Department of Foreign Affairs and Trade indicates that general investment stock in Australia held by Chinese interests is approximately A\$3.4 billion, which is mainly concentrated in the resources and real estate sectors.<sup>104</sup> The relevant Chinese authority has recorded 185 investment projects in Australia worth US\$0.4 billion.<sup>105</sup> It is unlikely that China would hold more than a very slight proportion of Australia's total FDI stocks of A\$210.9 billion at June 2002.<sup>106</sup> Based on an analysis of FDI inflows, in the five years to 30 June 2001, Australia experienced investment from China of A\$26 million.<sup>107</sup>

While considering this history of relatively small investment from China, it is important to acknowledge the future potential of China as an investment source. In 1999, the Chinese Ministry of Foreign Trade and Economic Cooperation announced policies to encourage Chinese enterprises to set up assembly plants overseas.<sup>108</sup> In China's tenth five-year plan, formulated in the beginning of 2001, a key initiative is to push state-owned enterprises to increase their international exposure, so as to enlarge China's economic space and influence.<sup>109</sup>

96 'Australia: Renaissance down under', *The Economist*, May 6 1989.

97 ABS International and Financial Accounts Data Management Unit 2002, op. cit.

98 Korea is the twenty-third largest source of global FDI, with 0.3 per cent of global outflows. See UNCTAD 2001, op. cit.

99 Economist Intelligence Unit 2002, op. cit., p. 231.

100 ABS International and Financial Accounts Data Management Unit 2002, op. cit.

101 In 2001-02, Singapore's FDI stocks in Australia increased by 84 per cent.

102 Malaysia held FDI stock in Australia worth A\$1.8 billion at 30 June 2001, which was more than the worth of the FDI stock held by Canada, Belgium, Ireland, Sweden or Italy.

103 Economist Intelligence Unit 2002, op. cit., p. 235.

104 Department of Foreign Affairs and Trade, 'China – bilateral trade and investment', Canberra, accessed at [http://www.dfat.gov.au/geo/china/proc\\_bilat\\_fs.html](http://www.dfat.gov.au/geo/china/proc_bilat_fs.html)

105 Ministry of Foreign Trade and Economic Cooperation, People's Republic of China, 'Sino-Australia bilateral trade relationship', [http://www1.moftec.gov.cn/moftec\\_en/dsbxg/dayangzhou/dayangzhou\\_en\\_01.html](http://www1.moftec.gov.cn/moftec_en/dsbxg/dayangzhou/dayangzhou_en_01.html), accessed September 2002.

106 ABS International and Financial Accounts Data Management Unit 2002, op. cit.

107 Ibid.

108 *Far Eastern Economic Review*, 15 April 1999 (cited in Singapore Ministry of Trade and Industry 2001, *China's Rising Investment in Southeast Asia: How ASEAN and Singapore Can Benefit*, [http://www.mti.gov.sg/public/PDF/CMT/NWS\\_2001Annual\\_China.pdf](http://www.mti.gov.sg/public/PDF/CMT/NWS_2001Annual_China.pdf), accessed September 2002).

109 Singapore Ministry of Trade and Industry 2001, op. cit., p. 110.

*We need to implement a 'going outside' strategy, encouraging enterprises with comparative advantages to make investments abroad, to establish processing operations, to exploit foreign resources with local partners, to contract for international engineering projects, and to increase the export of labor. We need to provide a supportive policy framework to create favorable conditions for enterprises to establish overseas operations.<sup>110</sup>*

With China's continuing growth, its accession to the World Trade Organisation and its continuing economic restructuring, China will emerge as an engine of growth for non-Japan Asia.<sup>111</sup>

In-market intelligence from the Invest Australia network indicates that opportunities exist in the Chinese market in the food, minerals, ICT and biotechnology sectors.

### Overview

Invest Australia's offices will be maintained in their current locations in the near term. Offices in Europe and the United States in particular will operate as 'hubs', servicing their immediate vicinity as well as other locations in their regions. Existing resources will be supplemented with short-term secondments and visits to explore potential in new markets, pursue particular investment opportunities or provide additional support for high-profile investment events. Consideration will be given to re-establishing a presence in Chicago in the context of appointing an investment commissioner for North America.

Invest Australia's overseas presence will be rebalanced over time to reflect the importance of the United States, Europe and Japan as historically the most important sources of foreign direct investment for Australia.

### Key initiatives

- Invest Australia's initial presence in global markets will be as follows:
  - North America — six staff spread across New York, San Francisco and possibly Chicago;
  - Europe — six staff spread across Frankfurt, London and Paris; and
  - Asia — 11 staff spread across Tokyo, Taipei, Hong Kong, Beijing, Shanghai and Singapore.
- Invest Australia's overseas presence will be rebalanced over time to reflect the importance of the United States, Europe and Japan as sources of foreign direct investment.
- Existing resources will be supplemented with short-term secondments and visits to explore potential in new markets, to pursue particular investment opportunities or to provide additional support for high profile investment events.

<sup>110</sup> Zhu Rongji, Premier of the State Council, 2001, 'Report on the outline of the tenth five-year plan for national economic and social development (VII)', Speech to the fourth session of the ninth National People's Congress, 5 March, accessed at <http://www.china.org.cn/english/8729.htm>

<sup>111</sup> Singapore Ministry of Trade and Industry 2001, op. cit., p. 116.

## 4. MARKETING

*In the light of information deficiencies in the global marketplace about Australia's comparative advantages, strengths and capabilities, the Commonwealth should be focused on promoting Australia offshore as a place to invest.*<sup>112</sup>

The outlook for investment attraction presents a burgeoning challenge for Invest Australia. In recent years, there has been a proliferation of national investment promotion agencies worldwide, with at least 1500 national or subnational agencies in Europe alone now competing aggressively for the investment dollar.<sup>113</sup> In general, Australia has a small voice in a large and cluttered marketplace.

To improve market penetration and increase Australia's share of foreign direct investment (FDI), Australia's investment promotion and attraction activities must be carefully coordinated and sustained. They must also be highly targeted, responsive to the needs of Australian industry and in tune with business imperatives.

### 4.1 Rolling three-year marketing plan

In consultation with stakeholders, Invest Australia will develop and implement a three-year marketing plan to position Australia as a competitive investment destination both within the region and around the globe. The principal objective of the plan will be to enhance Australia's reputation as an investment destination throughout the international business and investment community. This is critical in fostering investor interest in Australia and generating a pipeline of investment leads.

In partnership with the States and Territories and industry, the plan will ensure all major marketing activities are coordinated and integrated. Invest Australia has established a National Marketing Group, comprising representatives of the Commonwealth, States and Territories, to drive the direction of the plan. Given the dynamic nature of the global investment environment, the plan will be a rolling three-year strategy to enable it to be reviewed annually.

The implementation of the plan will involve the establishment of strategic alliances to enhance the distribution channels and information flow to clients in key markets. Key components of the plan will include the development of a national investment brand, the formulation of industry specific marketing strategies, the production of marketing materials, the coordination of Australia's participation at major national and international investment events, the leveraging of Ministerial travel, the enhancement of online marketing and the implementation of a communications strategy.

### National investment brand

The successful management of a nation's brand and identity is a powerful tool in providing a strong base for its positioning. A nation's brand image must communicate effectively its position in the global market. In partnership with the States and Territories and industry, Invest Australia will drive the development of an Australian investment brand to promote Australia internationally. The principal purpose of the brand will be to ensure all stakeholders reinforce influential and consistent messages in the marketplace about Australia's attractiveness as an investment destination.

To be successful, the brand must reflect Australian values and dovetail with other national brands to ensure compatibility with Australia's broader aspirations. It should not, for example, dilute the effectiveness of Australia's existing brand equity espoused by the Australian Tourist Commission, Axiss Australia or Austrade.

The brand will be supported by key generic messages about Australia's attractiveness as an investment destination. Based on feedback from stakeholders, the following key messages are expected to underpin Australia's investment brand:

1. strong economic credentials;
2. a democratic and politically stable location;
3. a highly skilled and multicultural workforce;
4. a cost competitive location;
5. sophisticated telecommunications and information technology systems;
6. an innovative culture with excellent research and development (R&D) infrastructure;
7. an open and efficient regulatory environment;
8. strategic time-zone advantages;
9. a welcoming attitude to foreign investment; and
10. excellent quality of life.

<sup>112</sup> Blackburne 2001, op. cit., p.15.

<sup>113</sup> World Association of Investment Promotion Agencies, <http://www.waipa.org/menu.htm>, accessed September 2002.



Each message will be supported by strong evidence in the form of key facts and statistical information. The messages will be reinforced across the range of Invest Australia's promotional activities, including publications, presentations, events and web marketing.

Invest Australia will seek brand buy-in from all major stakeholders, to ensure a commitment to the widespread and sustainable use of the brand, which will be essential to maximise Australia's message penetration in the global marketplace. The national investment brand will not preclude more specific State and Territory brands that highlight the strengths of particular jurisdictions. It is expected, however, that these brands will complement, rather than contradict, the national brand and that the States and Territories and industry will leverage off the national brand.

It is envisaged that the brand will be flexible enough to allow for different attributes to be emphasised in different markets, depending on the relative importance of various messages in each market. The flexibility of the brand will also enable it to be used in specific industry branding.

Invest Australia will draw on existing market research undertaken by the Australian Tourist Commission, Axiss Australia, Austrade and the States and Territories to help develop the national investment brand.

#### **Industry-specific marketing plans for information and communications technology, biotechnology and nanotechnology**

Generic marketing messages are essential to convey Australia's overall competitive advantages and to ensure consistency in all marketing efforts. However, these generic messages need to be linked to specific marketing messages about sectoral industry capabilities. All potential investors are seeking investment opportunities in particular industry sectors and require information concerning Australia's competitive strengths in certain sectors to inform their investment decisions. While generic marketing messages will be developed, generic marketing activities are expensive and will be very limited in scope. Invest Australia's main focus will be on industry-specific marketing plans for priority industry sectors.

Invest Australia will develop industry-specific marketing plans in consultation with other Commonwealth agencies, the States and Territories and industry for the priority industry sectors of information and communications technology (ICT), biotechnology and nanotechnology. The contents of each sectoral marketing plan will be influenced by research on Australia's competitive strengths in each sector, the identification of investment drivers in each sector, the benchmarking of Australia against its major competitors and sectoral investment needs. The plans will include, but not be limited to, targeted chief executive officer-level contact in key international markets, including through

private sector involvement and advocacy by Australian expatriate groups. Invest Australia will implement strategies for these industries under a 'Technology Australia' brand.

Industry development agencies of the Government, such as the Department of Communication, Information Technology and the Arts, will play key roles as partners in the National Investment Framework by providing data on Australia's capabilities, analysing gaps and future needs in the industry, providing case studies, nurturing expatriate advocates, identifying decision-makers and collating information for individual investment decision-makers.

Key marketing messages will be identified for each industry sector, and all stakeholders are expected to reinforce these messages. Industry-specific marketing will also be complemented by a client-oriented approach. Personal contact with investors in key industry sectors is an effective and cost-efficient way of ensuring marketing messages hit their target.

## **4.2 The marketing mix**

Invest Australia will adopt a range of marketing initiatives to promote Australia as an attractive investment destination. The following is an overview of these initiatives.

### **Publications**

Invest Australia will develop a range of promotional material to profile Australia's strengths and opportunities, and the services that Invest Australia can provide to prospective investors. These materials will include:

- an Invest Australia flagship publication, highlighting the generic investment messages that underpin the national investment brand and the range of Invest Australia services;
- sector-specific industry capability documents, demonstrating the strength of specific industry sectors;
- subsector snapshots to provide more detailed information on certain sectors for highly targeted marketing;
- testimonials of foreign investment success stories in Australia to provide tangible evidence of business support for Australia as an investment destination;
- generic and industry-specific presentation materials (such as Powerpoint presentations) for Invest Australia staff and stakeholders to use to deliver professional presentations to potential clients; and



## 4. MARKETING

- publications providing information for investors on issues such as business costs and regulations, taxation, industrial relations and immigration.

These publications will be provided in both electronic and hard-copy format, recognising the increasing importance of electronic mediums for disseminating marketing messages quickly and cost effectively.

### Major events

Major national and international showcasing events and conferences provide an opportunity to target a large number of potential international investors simultaneously.

Invest Australia, in cooperation with Austrade, has successfully established two national event committees to help coordinate Australia's participation at specific industry events. These are the Biotechnology Events National Committee (BENC) and the Information and Communications Technology Events National Committee (ICTENC). These committees have been instrumental in forging a unified Australian presence at major biotechnology and ICT events on the world stage, such as BIO and the World Congress on Information Technology.

Invest Australia will continue to facilitate a coordinated and collective approach to Australia's participation at major investment-related events. This will help to ensure Australia's presence at such events achieves maximum impact and is cost effective. At major industry showcasing events, for example, it is usually preferable to ensure all Australian exhibitors are united under the one Australian banner at the same exhibition stand, rather than sprawled throughout exhibition pavilions. The agreement of all exhibitors to key generic investment messages will also help to enhance the potency of Australia's promotional effort.

Invest Australia will develop and maintain a major events calendar that will provide up-to-date information on all events of interest to stakeholders. Participation in events will be prioritised to align with the strategic directions of the national investment framework. In respect of major international conferences, increased effort will be devoted towards securing high-profile speaking slots for Australian industry leaders with expertise in relevant disciplines. Invest Australia will work with chosen speakers to ensure Australia's investment messages are clearly and effectively conveyed, consistent with national industry development objectives.

### Online strategy

The Internet is a powerful marketing tool. It enables marketing messages and information to be conveyed throughout the world quickly, efficiently and in real time.

In 2001, Invest Australia commissioned an independent review of the effectiveness of its website. In response to the review, some initial redevelopment of the website is now being undertaken within existing resources to improve its style, language and content. In particular, the objectives of the redevelopment are to:

- provide more pertinent information relevant to investors' needs;
- make the site easier to navigate; and
- adopt more 'business friendly' language.

The new site will highlight investment opportunities in a range of industry sectors in which Australia has a comparative advantage or excellent investment potential. It will also feature Invest Australia services and the latest investment news about Australia.

To ensure optimal internal communication, Invest Australia will continue to maintain an internal website that provides all staff with easy access to information and presentation material. This will ensure domestic and overseas staff are kept up-to-date with the latest research and analysis, and provide clients with consistent messages.

### Sponsorships and advertising

Targeted sponsorship and advertising opportunities can be an effective means of capturing the attention of potential investors.

To help manage the national brand, minimise the risk of conflicting messages and reduce costs, Invest Australia will explore sponsorship and advertising opportunities in partnership with its stakeholders.

Invest Australia will seek to leverage maximum benefits from sponsorship opportunities to ensure they are cost effective. Similarly, advertising will be highly targeted, with every effort made to maximise its market reach. Given the expense of large-scale advertising, however, limited advertising will be undertaken within existing resources, and generic advertising campaigns will not be undertaken.

### 4.3 Communications strategy

Invest Australia will develop and implement an integrated communications strategy to raise the profile of Australia as an investment destination and to enhance awareness of Invest Australia's services.

An important component of the communications strategy will be leveraging off Ministerial travel. Australia's Commonwealth Ministers have access to high-level audiences around the globe, from Fortune 500 chief executive officers to foreign ministerial counterparts.

The Prime Minister has requested that all his Ministers consult with Invest Australia in the development of their overseas travel programs. This is to ensure Invest Australia is aware of all Ministerial travel and, if appropriate, can organise meetings for Ministers with appropriate foreign investors or integrate investment messages into speeches being delivered by Ministers during the course of their travels. Invest Australia will work through the National Investment Framework Inter Departmental Committee to identify upcoming investment-related events that may link to Ministers' travel plans and be conducive to Ministerial attendance.

Through the National Investment Advisory Board, Invest Australia will also seek advice on overseas travel by relevant State Premiers, Chief Ministers and their Ministers. This may allow for the coordination of Commonwealth and State Ministerial travel where Ministers are attending similar events or meeting with the same dignitaries, and may enable national investment messages to be reinforced by State and Territory Ministers.

Other significant elements of the communications strategy will include media and public relations, internal and external communications, and issues management. More specifically, within existing resources, the strategy will involve:

- introducing a limited Visiting Journalists Program, potentially in cooperation with the Department of Foreign Affairs and Trade and the Australian Tourist Commission, which already conduct similar programs;
- developing a database of national and international media organisations, journals, newspapers and journalists with an interest in investment issues;
- regularly releasing breaking investment news and interest stories to key media contacts and Australia's diplomatic posts;
- establishing a media section on Invest Australia's website;
- publishing an online Invest Australia newsletter; and
- developing and implementing an issues management strategy.

The communications strategy will be important in forging productive partnerships with key investment and industry media. It will also enhance awareness of Australia's investment successes and ensure perceptions of Australia as an investment destination are accurate and consistent with the aspirations of Australian industry.

### 4.4 Promotional channels

Ongoing market research is necessary at the generic and sector-specific levels to keep abreast of the most influential means of investment promotion.

Research on the most effective promotional channels will enhance information delivery and the dissemination of Invest Australia's messages in the marketplace. Gaining an understanding of the way in which investors prefer to be targeted is vital for maximising investment success. A range of marketing tools (including events, advertising, targeted publications, public relations opportunities, direct marketing initiatives and other tools) will be implemented to meet the specific needs of investors in particular markets. By gaining an in-depth understanding of how a particular audience absorbs information and through which channels, Invest Australia will be better able to determine how the marketing mix should be applied. Invest Australia's current understanding of promotional channels is limited to anecdotal information and in-market intelligence from the overseas network. It is critical that this information gap is filled through commissioned market research.

### Key initiatives

- Invest Australia will establish a National Marketing Group to develop and implement a rolling three-year marketing plan to position Australia as a competitive investment destination.
- Invest Australia will drive the development of an Australian investment brand, supported initially by the following generic messages about Australia's attractiveness as an investment destination:
  1. strong economic credentials;
  2. a democratic and politically stable location;
  3. a highly skilled and multicultural workforce;
  4. a cost competitive location;
  5. sophisticated telecommunications and information technology systems;
  6. an innovative culture with excellent R&D infrastructure;
  7. an open and efficient regulatory environment;
  8. strategic time-zone advantages;
  9. a welcoming attitude to foreign investment; and
  10. excellent quality of life.
- Invest Australia will develop and implement industry-specific marketing plans focusing on the priority industry sectors of ICT, biotechnology and nanotechnology.
- Invest Australia will develop a range of promotional materials, including a flagship publication, industry-specific capability documents, testimonials of foreign investment success stories, presentation materials and publications providing information for investors on issues such as business costs and regulations, taxation, industrial relations and immigration.
- Invest Australia will seek to facilitate a nationally coordinated approach to Australia's participation at major investment-related events.
- Invest Australia will redevelop its external website as an interactive marketing tool and maintain an effective internal website for information dissemination.
- Invest Australia will engage in targeted sponsorship and advertising opportunities that are cost effective and that extend market reach.
- Invest Australia will seek to leverage Ministerial overseas travel to promote Australia as an investment destination.
- Invest Australia will develop and implement an integrated communications strategy to raise the profile of Australia as an investment destination.
- Invest Australia will commission market research to provide more comprehensive and credible information on effective promotional channels.

## 5. LEAD GENERATION

*Australia should use all of its key people in the front-line to encourage international companies to visit here ... particularly in relation to multinational corporations and other potential investors in the target sectors.*<sup>114</sup>

Marketing initiatives lay the groundwork for the generation of investment leads. Sometimes marketing may be sufficient to generate the active interest of a potential investor, but often more targeted approaches will be needed to realise latent opportunities. Given Australia's limited resources for investment promotion and attraction, efforts in key markets need to be focused on a highly targeted approach to achieve the objectives of the national investment framework.

The strategic market and sectoral priorities identified in the framework are a first step towards achieving such an approach. These priorities need to be supplemented, however, with in-market efforts targeting specific companies to generate productive investment leads.

The overseas network has the prime role to play in lead generation. In particular, it makes a critical contribution towards analysing markets, identifying prospective investors, stimulating their interest and accompanying them through the investment process.

The relationships that Invest Australia establishes with companies enables the effective targeting of companies along the investment continuum — from initially approaching a company to invest in Australia, through facilitating the establishment of a business function, to working with a company to secure an expansion investment. The benefit of this approach is an increase in the number of prospective leads and, ultimately, increased investment in Australia.

Close cooperation among all stakeholders will be necessary to maximise the effectiveness of lead generation activities. Many target companies may already be clients or existing investment targets of a State or Territory. Invest Australia will therefore coordinate national lead generation activities, designed to complement specific State and Territory initiatives.

### 5.1 Strategic company targeting

Successful identification of potential investor targets requires constant and effective dialogue between the offshore and onshore arms of Invest Australia.

Invest Australia will implement a two-pronged approach towards company targeting. The first will involve the onshore identification of the characteristics of potential foreign investors that match the industry development needs of the national investment framework's priority industry sectors. Included in this approach is liaison,

in cooperation with the States and Territories, with the subsidiaries of foreign-owned companies based in Australia, so as to identify potential reinvestment opportunities (see chapter 6).

The second element of the approach will involve using the market intelligence of the offshore network to identify companies that match the characteristics of preferred investors.

#### Industry development goals

In light of the sectoral priorities identified in chapter 2, Invest Australia will work in partnership with national investment framework stakeholders — including the industry development areas of government, the National Investment Advisory Board and relevant industry associations — to identify company targets. Drawing on industry capability information and the investment needs of particular sectors, the characteristics of companies that match Australia's strategic interests will be identified. Presentation material for companies that potentially match these characteristics will then be developed in the context of company-relevant investment drivers (including generic, sectoral and regional drivers) to assist the overseas network to pitch effectively to these companies.

In considering the Government's industry development objectives, it is recognised that the ongoing economic development of regional Australia is a high priority for the Government. Accordingly, Invest Australia will take account of the investment needs of regional Australia when identifying overseas companies that match Australia's strategic investment interests.

#### Offshore market intelligence

Given the priority sectors for investment attraction, the strategic project criteria and knowledge of Australia's industry capabilities (codified by Invest Australia and the industry development areas as outlined in chapter 2), Invest Australia's overseas staff will be in a position to use their local market knowledge to identify appropriate overseas companies to target. The overseas network will work with Invest Australia's onshore International Support Group and relevant industry teams to prepare presentation material for a targeted approach to these companies. This presentation material should provide compelling reasons for the company to locate their investment in Australia, including any opportunities to invest in regional Australia.

<sup>114</sup> Blackburne 2001, op. cit., p.61.

## 5. LEAD GENERATION

The International Support Group will have a key role in ensuring the onshore staff of Invest Australia, particularly the industry teams, are aware of regional differences in investment drivers and preferred promotional channels to investors.

### 5.2 Investment leads

Invest Australia's principal clients are foreign companies, as distinct from Australian companies. While the expertise and investment needs of Australian companies can help attract foreign investors, Invest Australia's focus is on working with foreign companies to attract their interest and help them establish operations in Australia.

Priority is therefore given to protocols governing investment leads generated from foreign investors. The needs of Australian companies seeking foreign investment are often best served through alternative mechanisms such as outward missions and business matching at key international events.

Commonwealth, State and Territory Industry Ministers agreed at their meeting in April 2001 to the implementation of new protocols governing the distribution of potential investment leads generated by the work of the overseas network of Invest Australia/Austrade. These protocols ensure all States and Territories are given the opportunity to respond to investment leads generated by Invest Australia, including the identification of suitable cities or regions for proposed investment. The protocols have led to the development of agreed processes for the development and distribution of Foreign Investment Lead Summaries and Foreign Investment Briefs.

#### Foreign Investment Lead Summaries

From the early notification of a potential investment via the overseas network's preparation and distribution of Foreign Investment Lead Summaries, States and Territories have five days to indicate their interest in the lead and provide initial information about the suitability of their region for the proposed investment. Where discussion with a potential investor leads to serious interest in investing in Australia, and where the overseas officer has qualified (usually with the assistance of the States and Territories) the investor and project, the overseas officer may prepare a Foreign Investment Brief.

#### Foreign Investment Briefs

A Foreign Investment Brief provides comprehensive information about the potential project and associated products or services, possible Australian involvement and, generally, the potential investing company. It also provides details of further action or information required by the potential investor. Invest Australia distributes the brief to relevant States and Territories.

Based on further feedback from relevant States and Territories, as well as subsequent discussions with the potential investing company, that company will decide (1) whether to proceed with the proposed investment in Australia and (2) the best location for the project.

#### Australian Investment Lead Summaries

The preparation of detailed material is unnecessary to gauge initial interest from a prospective foreign investor in Australian companies seeking international partners for local projects. Accordingly, in consultation with stakeholders, Invest Australia will enhance the investment lead protocols through the development of Australian Investment Lead Summaries. These summaries are expected to mirror the level of detail contained in a Foreign Investment Lead Summary, with a view to providing Australia's overseas networks with early intelligence about potential investees in Australia. Following initial interest from possible investors in response to an Australian Investment Lead Summary, those investors will be put in contact with the Australian investee company.

#### Investment Client Management System

Invest Australia will track current and potential leads using an Investment Client Management System, thereby keeping a record of company contact, which will assist in targeting potential investors.

This new web-based database will enable Invest Australia to keep an accurate record of all network contact with clients, track leads and support the project facilitation process at a Commonwealth agency level. It will also provide an essential tool from which to leverage marketing activities. It will be capable of being used from a wide variety of locations and, from a technical standpoint, will operate independently of existing departmental information technology carrier networks. It will therefore support the integration of a wide variety of Commonwealth Government agencies into the national investment framework.

The Investment Client Management System will facilitate a business process model at the Commonwealth and State and Territory levels. It will support Invest Australia's relationship with State and Territory agencies through the Foreign Investment Lead Summary and Foreign Investment Brief processes. It will provide unified data support for Invest Australia's 'first stop' business model and improve operational effectiveness.

Subject to additional capital and resources, the system will be developed to progressively upgrade and extend functionality, coverage and access. This development will include extending inter-agency access (subject to revised security and remote training systems), the integration of business functionality with office software, the upgrade and diversification of server locations, and the development of specifications for a follow-on system.

### 5.3 Site visits

Site visits in Australia for potential foreign investors are an important means of consolidating investor interest in projects and converting investment leads into productive projects.

Invest Australia will work in partnership with stakeholders to conduct site visits to familiarise potential investors with investment opportunities and to meet their information needs. This work will include coordinating appropriate visit schedules with relevant State and Territory governments, organising meetings with interested parties and accompanying investors on the site visits.

In considering Australia as a location, potential investors require initial information (including general market data and costs) and post-feasibility information. Once the feasibility of a project has been determined, investors often seek to conduct a range of meetings to fill any outstanding information gaps, including meetings with relevant State/Territory representatives, lawyers, accountants, industry experts, potential partners and suppliers, human resource firms, real estate companies and relevant utility authorities (including water, power, planning).

In planning for a site visit on behalf of an investor, Invest Australia will undertake the research required to arrange a tailored visit, including identifying potential business partners and the availability, cost, quality and capability of business inputs. Invest Australia will also provide a full client service throughout the organisation of site visits and will provide advice to investors on, for example, the range of Invest Australia services and other government assistance measures that may benefit project proponents.

### 5.4 Inward and outward missions

Where resources permit, Invest Australia will work in partnership with stakeholders to conduct inward and outward missions to raise awareness of Australia's industry strengths and help generate investment leads. These missions will be coordinated with the States and Territories and industry representatives to ensure they have maximum impact and are cost effective.

Inward missions, comprising representatives of overseas companies that Australia has targeted for investment attraction, bring potential investors right to our door. They provide such companies with the opportunity to see, first hand, Australian industry capability and specific investment opportunities. They could be expected to involve senior delegations from overseas companies, and Invest Australia will work with the States and Territories and relevant Ministers' offices to coordinate high-level meetings to discuss certain strategic projects.

Outward missions, comprising leading Australian companies seeking overseas investment partners, take Australia's talent to the world. They provide the opportunity to enhance awareness in overseas markets of the competitive advantages of Australia as an investment destination. They also provide Australian companies with access to potential investment partners that they otherwise might not be able to engage.

Both inward and outward missions provide a targeted approach to investment lead generation and act as an important means of facilitating business and capitalising on investor interest in Australian companies and opportunities.

### 5.5 Leveraging business matching activities

Business matching is an important means of ensuring Australian companies with investment opportunities are linked with the right international business partners. Invest Australia will, in partnership with stakeholders, build on business matching activities at major investment-related events.

National events committees, including the Biotechnology Events National Committee (BENC) and the Information and Communications Technology Events National Committee (ICTENC), will play an integral role in identifying opportunities for business matching.

Significant progress has already been made in recent years to facilitate business matching between Australian and international delegates at major events such as BIO 2001 and 2002, and the World Congress on Information Technology (WCIT) 2002. At BIO, a partnering forum and an Australian, New Zealand and Canadian networking function have been instrumental in matching delegates with similar business interests. For WCIT 2002, Invest Australia chaired a national committee to organise an associated Business Forum, which provided an opportunity for Australia's innovative ICT companies to present their products and credentials on the world stage.

Invest Australia, in partnership with stakeholders, will further investigate mechanisms for assisting Australian project proponents to present customised proposals to potential foreign investors at key events.



### Key initiatives

- Invest Australia will implement a two-pronged approach to company targeting based on the strategic investment needs of Australian industry (including the investment needs of regional Australia) and the market intelligence of overseas networks.
- Invest Australia will prepare company-specific presentation material to assist its overseas network to effectively target companies.
- In partnership with stakeholders, Invest Australia will implement agreed protocols for the development and distribution of Foreign Investment Lead Summaries and Foreign Investment Briefs.
- In partnership with stakeholders, where appropriate, Invest Australia will develop Australian Investment Lead Summaries to provide overseas networks with early intelligence on potential investees in Australia.
- Invest Australia will develop and implement an Investment Client Management System to effectively monitor contact with clients and to assist with company targeting activities.
- In cooperation with the States and Territories and industry, Invest Australia will coordinate site visits for overseas companies with a demonstrated interest in investing in Australia.
- Where resources permit, Invest Australia will work in partnership with stakeholders to conduct inward and outward missions to help generate investment leads.
- Invest Australia will, in partnership with stakeholders, build on business-matching activities at major investment-related events.



## 6. GOVERNMENT PROGRAMS AND SERVICES

*Boundaries between the Commonwealth and States and Territories must be seen as seamless by investors.*<sup>115</sup>

Invest Australia currently provides a range of services to assist foreign and domestic companies bring an investment project to fruition.

This is primarily a facilitation role, whereby client managers provide advice to investors on relevant government services, programs, regulations and approval processes. It also involves connecting investors with the right industry and government contacts, particularly in respect of State- or Territory-related issues.

To provide a seamless interface between governments, Invest Australia will position itself as the first stop on the investment facilitation continuum, providing an initial contact point for Commonwealth Government approvals and directing investors to other relevant Commonwealth, State and Territory and local government agencies for business programs, project approvals and other assistance.

Invest Australia will also direct potential investees, where necessary, to the Foreign Investment Review Board, which examines proposals by foreign interests to undertake direct investment in Australia and makes recommendations to the Government on whether those proposals are suitable for approval against the background of the Government's foreign investment policy. The general stance of policy is to welcome foreign investment, with the Foreign Investment Review Board approving approximately 99 per cent of applications in 2000-01.<sup>116</sup>

In most instances, except for projects requiring significant Commonwealth approvals, State and Territory investment agencies will have prime responsibility for bringing investments to fruition.

Invest Australia will enhance this partnership with the States and Territories by changing the services and programs it offers, while recognising that the early involvement of the States and Territories through the lead protocols is imperative.

A seamless, coordinated approach to investment facilitation will help investors to successfully navigate Government approval requirements and be more aware of services and programs to assist their investment. It will also help governments at all levels to reduce duplication of effort and allocate scarce resources efficiently.

### 6.1 Investment facilitation and client service

Invest Australia currently provides all of its clients with a level of facilitation service. Some projects are formally recognised for a higher level of service for investment facilitation, while most receive ongoing client service in cooperation with the States and Territories.

Facilitation services currently offered to clients are tailored to suit the nature and complexity of each project. They take account of, for example, a client's knowledge of Australian industry and their experience with Australian governments.

Invest Australia provides project proponents with information, advice and support to achieve prompt investment decisions. Invest Australia also identifies areas in which government assistance may be available, such as immigration, local procurement, customs concessions and Government industry assistance programs. Information on other relevant issues, such as taxation, competition policy and/or possible Australian suppliers (including details of opportunities to link proponents with domestic supply chains), is also often provided.

#### New Major Project Facilitation service

The Major Project Facilitation (MPF) service is the prime formal facilitation process currently offered by Invest Australia. The MPF service assists companies to navigate transparent Government approval processes quickly and efficiently.

The Government may grant MPF status to selected major investment projects. Companies can apply to the Minister for Industry, Tourism and Resources for MPF status if their project has a total capital expenditure of over A\$50 million, needs Commonwealth Government approvals and is commercially ready to proceed.

This formal recognition by the Minister can serve as a valuable attraction tool in its own right. It provides a level of recognition that enhances the relationship with the potential investor and gives added impetus to efforts to secure the project when dealing with government agencies and business partners.

<sup>115</sup> Blackburne 2001, op. cit., p.(i).

<sup>116</sup> Foreign Investment Review Board 2001, *Report 2000–2001*, Canberra, p.(vii).

## 6. GOVERNMENT PROGRAMS AND SERVICES

It is significant to note, however, that many projects of strategic significance to Australia — particularly projects in emerging industries and knowledge economy sectors — do not qualify for MPF status because the capital expenditure involved does not exceed the A\$50 million threshold. Accordingly, Invest Australia will recast the current MPF service and reposition it as primarily an attraction mechanism for potential foreign investors, in alignment with the strategic direction of the national investment framework.

The MPF service will be made available to investors seriously considering Australia as an investment location and will be granted by the Minister for Industry, Tourism and Resources to demonstrate the Government's support for strategic investment projects. Project proponents seeking MPF status will be required to demonstrate that their project has the potential to be commercially viable and that it meets the national investment framework's criteria for a strategic project as outlined in chapter 2.

This repositioning will preserve the services currently provided to MPF investment projects, while ensuring the status currently afforded to MPF projects is effectively extended to a wider range of projects of strategic significance.

### **Proposed Invest Australia Supported Skills Program**

The importance of skilled migration in economic development, particularly in 'knowledge economy' areas, is broadly recognised. The 2001 OECD report, *The New Economy: Beyond the Hype*, makes specific reference to the need for policies that mobilise labour to assist in increasing multi-factor productivity in economies.

The establishment of projects in Australia that are sponsored by foreign direct investment (FDI) is usually supported, in the first instance, by senior management and specialists from the sponsoring offshore organisation. It is also increasingly common for international companies to circulate key personnel through offices worldwide. Streamlined immigration for such personnel is a useful means of encouraging international companies to invest in Australia.

Invest Australia will work with the Department of Immigration and Multicultural and Indigenous Affairs to consider options for providing an Invest Australia Supported Skills Program (IASSP), which would build on and replace the current Regional Headquarters program.<sup>117</sup> Currently, companies that do not qualify for the Regional Headquarters program seek to gain employee visas through the Employer Nomination Scheme for permanent employees, various business sponsorship schemes for temporary employees, or a Labour Agreement. These arrangements are based on the demonstration of skill shortages.

The proposed IASSP would be analogous to the Regional Headquarters program in that its objective would be to attract FDI, rather than address skills shortages. Consequently, companies would not be required to undertake labour market testing. Agreements under the proposed IASSP would cover employees in eligible managerial and specialist positions defined according to existing Government employment classification lists and definitions.

The proposed program would provide streamlined immigration arrangements for the eligible staff of companies wishing to invest in Australia or companies with an existing presence that are seeking to invest in a new area of operation. Such companies would have access to permanent and long-stay business visas for key expatriate employees already employed by the company.

The program would be designed as an investment attraction tool, with immigration agreements being granted to foreign investments that provide significant economic, strategic or enabling benefits to Australia. Companies would be granted an immigration agreement by the Minister for Industry, Tourism and Resources, and the issue of an immigration agreement would be a free service by Invest Australia.

### **Other Government programs**

It is imperative that Invest Australia's staff have access to information on the range of Government programs available to potential investors, so they can identify prospective 'support' packages that investors can compare with competing investment locations.

As part of the refinement of current attraction and facilitation processes, Invest Australia will enhance its corporate knowledge systems to assist in the delivery of better advice to investors. This will include (1) an enhanced flow of information on the range of relevant Government programs available to potential investors and (2) better links with relevant Government agencies.

Staff will be provided with access to up-to-date information about the relevant programs and business assistance offered by agencies such as AusIndustry and Austrade, for example.

<sup>117</sup> The current Regional Headquarters program promotes and facilitates the establishment in Australia of regional headquarters and regional operating centres by international companies. Over the past year, Invest Australia has received numerous enquiries from companies that fall outside the Regional Headquarters program eligibility guidelines in that the proposed investment did not manage functions that service an international operation.

## 6.2 Strategic investment coordination

*Well-targeted incentives can undoubtedly play a role in winning an investment project. However, the use of incentives also carries a risk for 'beggar-thy-neighbour' policies, by which countries underbid each other to lure investment to their geographical areas ... For policy makers at the international, national and local levels, there is a need to find out what incentives make sense in terms of affecting the allocation of productive investments and what incentives may be harmful to the economy.<sup>118</sup>*

While Australia's fundamental competitive advantages as an investment destination will continue to drive FDI decisions, it is common for companies with prospective investment projects to seek the best possible package of assistance from Australian governments, both Commonwealth and State or Territory.

In certain circumstances, the Commonwealth Government recognises there may be a need for specific incentives to secure a strategic investment for Australia. Invest Australia assists the Prime Minister's Strategic Investment Coordinator in the consideration of investment incentives for strategic projects, in limited and special circumstances where the project would generate significant net economic benefits for Australia.

The underlying rationale of the Strategic Investment Coordination (SIC) process is to attract to Australia viable projects with significant net economic and employment benefits that would have otherwise located offshore. The process recognises the global mobility of FDI and that projects may be competing for footloose capital. The use of financial incentives to attract investment is seen as part of a larger suite of investor services on offer from Invest Australia and, accordingly, such incentives are used sparingly. Incentives for strategic investment projects are considered on a case-by-case basis, taking into account a published set of criteria.

The SIC process is open to both foreign and domestic investors, in any industry sector. Assessment of requests for assistance is rigorous, and decisions to provide support are publicly announced, to ensure Government accountability for the use of taxpayers' funds. A significant proportion of Invest Australia's resources is consumed in supporting the SIC process, including fees, travel and administrative support for the Strategic Investment Coordinator, the assessment of submissions, taking recommendations for support to Government, and the negotiation of terms and conditions for support agreed by the Government. The Department of Industry, Tourism and Resources is responsible for ongoing administration of incentive payments for projects supported through the SIC process, including monitoring project progress against agreed milestones.

When assessing proposals for an incentive, Invest Australia and the Strategic Investment Coordinator

ensure all avenues of other possible Government support are explored. This involves a detailed knowledge of other Commonwealth Government business assistance programs, many of which may not be known to the project proponent. Invest Australia and the Strategic Investment Coordinator also work with the relevant State or Territory governments to explore possible support to complement any Commonwealth assistance that may be provided.

It is important that the SIC process be responsive to investor needs, particularly in respect of the timeframes involved in investment decisions. It is also important, however, that any decision by the Strategic Investment Coordinator to recommend an incentive is based on a sound and rigorous analysis of the need for Government support, given the need for strict accountability and the many calls on Government funding. The majority of requests for SIC support do not meet the criteria established by the Government. Project proponents who do not meet the criteria may, however, request assistance from the Government outside the SIC process. In most cases, Invest Australia will not be responsible for assessing any such requests, but will continue to provide normal facilitation services to these projects.

Invest Australia will continue to support and work with the Strategic Investment Coordinator to ensure the SIC process reflects the strategic directions and priorities of this framework, including the criteria for strategic projects. This will include an analysis of options for streamlining assessment procedures to ensure the SIC process provides an effective and efficient mechanism for securing strategic FDI with relatively short lead times, without compromising the need for rigorous assessments and strict accountability for all recommendations made to Government.

## 6.3 Promoting regional Australia

The ongoing economic development of regional Australia is a high priority for the Commonwealth Government. Many inward investment projects attracted or facilitated by Invest Australia are located in regional Australia, and Invest Australia will continue to ensure the merits of locating in regional Australia are marketed to prospective foreign investors as appropriate.

Invest Australia has developed *Inside Intelligence: Building an Investors' Guide* as a tool to help regional communities realise their investment potential. It delivers a practical, low-cost process to enable communities to collect valuable information about their investment environment. Communities are encouraged to draw on the assistance of relevant State and Territory government agencies in this process. At the end of August 2002, 35 regions within Australia were using this tool.

<sup>118</sup> UNCTAD 2002, *The World of Investment Promotion at a Glance: A Survey of Investment Promotion Practices*, Advisory Study 17, Geneva, p. 34.

To build on this initiative, an *Inside Intelligence Supplement* has recently been released. The supplement provides a step-by-step guide to help regional communities use the *Inside Intelligence* data to draft an economic development plan, identify specific investment projects and prepare an Investment Opportunity Document for promotion in the domestic or international marketplace.

Prime responsibility for the effective use of *Inside Intelligence* rests with the communities themselves in consultation with relevant State and Territory agencies and Department of Transport and Regional Services networks.

The implementation of the Government's A\$2.2 million Regional Investment and Trade Package will provide a significant stimulus to regional economic development. The package is being overseen by a Steering Group comprising the Department of Transport and Regional Services, Invest Australia, Austrade, the Australian Local Government Association and the State and Territory governments through the Regional Development Taskforce. The package aims to:

- improve the integrity of investment proposals developed in regions, via a series of seminars in regional Australia to raise awareness of key factors for being 'investment ready';
- promote investment opportunities in regional Australia, via the identification of specific investment opportunities (including those through State investment agencies and Invest Australia) for marketing domestically and overseas; and
- raise awareness of the opportunities for trade between regional Australia and the world, particularly Asia.

### 6.4 Aftercare and reinvestment

Existing investors are acknowledged as a primary source of additional investment or 'reinvestment'. International studies have consistently demonstrated that over half of FDI by overseas firms in developed countries represents reinvestment by existing enterprises and that this reinvestment exceeds new greenfield investment.

Effective aftercare plays a significant role in securing this additional investment where it is locationally mobile. This is particularly important when there is intra-corporate competition within a multinational company and Australia is only one location option. Aftercare programs can also alert governments to any perceived investor concerns about government policies and activities.

The State and Territory governments play an important role in developing and maintaining close relationships with companies and, through their aftercare activities, in identifying opportunities for reinvestment. Similarly, various Commonwealth Government departments and agencies establish and maintain contact with companies through their roles in policy formulation and program delivery.

Invest Australia is well positioned to add value to aftercare and reinvestment through its overseas network's links with the head offices of international companies located in Australia. In cooperation with the States and Territories, Invest Australia can assist local subsidiaries in making a case to their parent companies when competing on a global basis with other subsidiaries for new investment.

### 6.5 Disinvestment

Where market intelligence is obtained that pertains to risks of disinvestment, Invest Australia will promptly refer this information to the relevant Commonwealth and State and Territory agencies. Information about reasons for possible disinvestment will often be important for industry policy development.

#### Key initiatives

- Invest Australia will position itself as a first stop on the investment facilitation continuum, providing an initial point of contact for Commonwealth Government approvals and directing investors to other relevant Commonwealth, State and Territory and local government agencies.
- Invest Australia will revamp the Major Project Facilitation (MPF) service for eligible project proponents to align with the strategic direction of the national investment framework.
- Invest Australia will work with the Department of Immigration and Multicultural and Indigenous Affairs to consider options for introducing the Invest Australia Supported Skills Program (IASSP) to provide foreign investors with special immigration status for key expatriate employees.
- Invest Australia will enhance its corporate knowledge systems to provide staff with access to up-to-date information on the range of Commonwealth Government programs and assistance measures available to potential investors.
- Invest Australia will work with the Strategic Investment Coordinator to ensure the SIC process reflects the strategic directions and priorities of the national investment framework.
- Invest Australia will analyse options for streamlining assessment procedures under the SIC process to help secure strategic FDI with relatively short lead times.
- Invest Australia will promptly refer information on risks of disinvestment to relevant Commonwealth and State and Territory agencies.

## 7. NATIONAL LEADERSHIP AND PARTNERSHIPS

*There is a need for committed national leadership, a strategic approach embracing a partnership between the Commonwealth, the States and Territories and business, some rationalisation of the roles and responsibilities between the levels of government, changes in Commonwealth agency responsibilities and close attention to the different phases involved in investment attraction. This includes the maintenance of close ongoing relationships with companies once they have invested here.*<sup>119</sup>

The development of constructive partnerships between Commonwealth agencies, State and Territory governments and industry representatives is fundamental to securing a coordinated approach to attracting productive foreign direct investment (FDI) to Australia.

A partnership approach is essential in ensuring all stakeholders reinforce key messages in the marketplace about Australia's competitive advantages as an investment destination. It is also instrumental in helping to ensure the activities of each stakeholder are complementary and that available resources are deployed in a cost-efficient manner.

States and Territories, being the ultimate location of all investment projects, have a fundamental role in investment attraction activities. As well as ensuring broad-level cooperation among the Commonwealth and State and Territory governments on strategic direction, research and marketing activities, day-to-day cooperation in the investment market, particularly on the ground with potential investors, is crucial to investment attraction success. Key examples are cooperation on company targeting and the leveraging of private sector relationships to avoid duplication and maximise effectiveness.

### 7.1 Leadership role of Invest Australia

As envisaged by the Blackburne report, Invest Australia will assume a leadership role in facilitating a nationally coordinated approach to investment promotion and attraction. Invest Australia will be primarily responsible for the effective implementation of the national investment framework.

While Invest Australia will report to the Minister for Industry, Tourism and Resources, the Employment and Infrastructure Committee of Cabinet will be responsible for providing broad oversight of Commonwealth inward investment promotion and attraction activities.

This signifies the high priority afforded by the Government to inward investment and the need for a whole-of-Government approach. It will also ensure Invest Australia is accountable to the most senior levels of the Government for delivery of key elements of the national investment framework. Invest Australia will report regularly to the Committee on progress with implementation of the framework.

### 7.2 National Investment Framework Inter-Departmental Committee

Many Commonwealth Government policy issues that have an impact on the investment environment fall outside the direct mandate of Invest Australia. Accordingly, Invest Australia will chair a National Investment Framework Inter-Departmental Committee (NIF IDC) of relevant Commonwealth agencies to assist the development of a whole-of-Government policy on investment attraction.

Invest Australia will use the NIF IDC to provide advice to relevant Government agencies on potential impediments to inward investment attraction and possible policy implications. Through, for example, gathering industry capability information, benchmarking Australia's performance against market conditions and investment drivers, analysing the approach to investment attraction by Australia's competitors, analysing client feedback and undertaking research, Invest Australia will be in a position to identify significant policy impediments to investment attraction. Identifying any impediments will help to ensure Australia's investment policies are conducive to effective investment promotion and attraction activities.

The NIF IDC will also be in a position to provide Invest Australia with valuable advice, from an industry policy perspective, on nationally strategic industries for investment attraction and to assist in the identification of Australian industry capabilities. Further, it will assist in the regular coordination of activities in offshore markets where, for example, the Department of Foreign Affairs and Trade, Austrade and Axiss Australia are supporting the investment promotion and attraction effort. It will also use the overseas networks of the Department of Foreign Affairs and Trade and Austrade to obtain feedback on perceptions of Australia, barriers to investment and competitor strategies.

The NIF IDC will meet approximately every six months (or as required). It will be supported by a secretariat provided by Invest Australia.

<sup>119</sup> Blackburne 2001, op. cit., p.(vii).



### 7.3 National Investment Advisory Board

Consistent with the Blackburne report, a National Investment Advisory Board (NIAB) will be established to coordinate Commonwealth and State and Territory investment attraction activities. The NIAB will be chaired by the Chief Executive Officer of Invest Australia and comprise the heads of State and Territory investment agencies or their representatives.

The NIAB could be expected to make a significant contribution towards a number of key activities, including the provision of advice on national priority sectors and markets for inward investment, national cooperation on investment-related research and marketing, intergovernment protocols on investment leads, investor facilitation services and aftercare programs.

It will establish principles for cooperation between Invest Australia and its State and Territory counterparts in two critical areas for the operation of the national investment framework:

- cooperation offshore with respect to proactive targeting in the priority sectors of information and communications technology (ICT), biotechnology and nanotechnology, so as to define how coordination of offshore resources will occur to avoid duplication and extend marketing reach; and
- cooperation onshore with respect to visits to company allies and/or reinvestment targets to make the most of local knowledge and relationships.

The NIAB will also provide a forum in which the States and Territories can share industry and market intelligence with the Commonwealth Government and through which important investment matters can be taken to the Industry and Technology Ministers' Council. The sharing of sector-based capability information at the State and Territory level will contribute significantly to the preparation of marketing materials for promotional activities and help to secure investment leads.

Evidence of increased cooperation among the States and Territories in investment attraction is demonstrated by, for example, an agreement signed by the New South Wales and Victorian governments in 2001 that establishes protocols for sharing investment information, eliminating unnecessary bidding wars and containing the provision of financial incentives for potential investors. South Australia has recently indicated its intention to join New South Wales and Victoria in this initiative.

Invest Australia will provide the secretariat service for the NIAB. The NIAB will meet every six months, or as required.

### 7.4 Industry and Technology Ministers' Council

A standing item on investment will be included on the agenda of the Industry and Technology Ministers' Council. This will provide political-level endorsement of the ongoing development and implementation of the national investment framework, as well as a regular mechanism for considering a whole-of-nation approach to policy issues affecting the implementation of the framework.

Industry Ministers have already made a number of important decisions affecting the direction of investment promotion and attraction activities, including the endorsement of:

- operating guidelines for Commonwealth and State and Territory governments on investment promotion, attraction and facilitation;
- foreign investment lead protocols; and
- three priority areas in which a national strategic approach would be taken for investment attraction (ICT, biotechnology, and research and development).

### 7.5 Coordination of offshore resources

Invest Australia will deploy its offshore resources to best deliver on the objectives of the national investment framework (see chapter 4). This will entail locating representatives with appropriate industry and local market knowledge in key target markets. The allocation of resources to specific industry sectors and markets will be driven by rigorous ongoing analysis (as identified in Invest Australia's research agenda) and in-market intelligence. Issues considered will include: trends in FDI outflows from various countries; trends in FDI flows to Australia; economic developments in target markets; and the investment needs of industry sectors in Australia.

Invest Australia's presence offshore must be considered in the context of Australia's broader representation overseas. Invest Australia's activities in overseas markets are supported by the efforts of the Commonwealth Government's overseas network in promoting Australia's competitive strengths, including its strengths as an investment destination. In particular, Invest Australia, the Department of Foreign Affairs and Trade, Austrade and the Australian Tourist Commission have a collective role in ensuring Australia's national commercial interests are promoted and represented overseas in a consistent and effective manner.

Given their extensive overseas networks, partnerships with the Department of Foreign Affairs and Trade, Austrade and the States and Territories will be essential in delivering a coordinated approach to investment attraction and in extending the reach of Invest Australia's promotion and attraction efforts.

### **Department of Foreign Affairs and Trade**

The Department of Foreign Affairs and Trade manages a network of over 80 overseas posts, including Australian embassies, high commissions and consulates. Under the whole-of-Government approach outlined by the national investment framework, the Departmental officers representing Australia in international markets will help deliver key messages about Australia's appeal as an investment destination.

In particular, Invest Australia will use the Department's network for high-level representation duties. The status afforded to the Department's heads of mission (ambassadors, high commissioners, consuls-general) will help to 'open doors' to the chief executive officers of major international companies that otherwise may be difficult to access. Departmental staff in posts with no Invest Australia representation will continue to refer investment enquiries and leads to Invest Australia. Arming Australian diplomats with the marketing tools of the national investment framework and working cooperatively with them to target potential investors will enhance Invest Australia's global reach and impact.

Invest Australia and the Department of Foreign Affairs and Trade will continue to work closely together and attach a high priority to this cooperation. To foster closer links, a new set of principles for future cooperation will be established between the two organisations. These principles could be expected to specify the roles and responsibilities of the Department's posts, areas of cooperation with Invest Australia and effective reporting mechanisms.

### **Austrade**

Cooperation with Austrade, both onshore and offshore, will be an important element of Invest Australia's investment promotion and attraction efforts. Commonwealth Government priority sectors for both investment attraction and export promotion are often similar. Many of these priority sectors are emerging high-tech industries, which are born global in outlook and seek both inward investment and global networks and alliances to survive and expand. It is therefore logical, where these mutual priority sectors exist, to pursue the objectives of Austrade and the national investment framework in tandem.

Austrade is represented in 109 locations in 61 countries. Many of Austrade's offshore resources are located in cities where there is no other Australian Government presence or where, if the office is in the same location as the Department of Foreign Affairs and Trade, the office's client networks are significantly different from those of the Department. Again, Austrade's networks provide a useful mechanism for extending the reach of Australia's investment promotion and attraction efforts.

Austrade will provide Invest Australia with a responsive referral service. As part of its general responsibilities in serving the national interest, Austrade will refer to Invest Australia inward investment leads or enquiries that are brought to its attention. Austrade will not be expected to provide inward investment-related services beyond this, except where specifically requested to do so by Invest Australia under a fee-for-service arrangement. To give effect to this arrangement, Invest Australia will establish a memorandum of understanding with Austrade that articulates areas of cooperation in implementing the national investment framework.

### **Overseas offices of States and Territories**

The various States and Territories have a number of overseas offices that devote considerable attention to investment attraction. Through the NIAB, the resources and activities of the offshore networks of Commonwealth and State and Territory agencies will be more closely coordinated to maximise the effectiveness of the marketing and lead generation activities of the national investment framework.

Experience demonstrates that the chances of success are increased when the offshore resources of Invest Australia and a relevant State/Territory work together in nurturing an investment lead.



### 7.6 Private sector alliances

Invest Australia will seek opportunities to partner with the private sector in promoting Australia as an investment destination.

Leveraging off private sector networks will sharpen the business focus of marketing activities, enhance channels to disseminate information on Australia's investment opportunities and help to achieve cost efficiencies.

Invest Australia will work with investor-related organisations and, where appropriate and within resource constraints, form strategic research alliances to complement the research undertaken by Government agencies. In many instances, private sector consultancy firms, financial institutions, legal entities and industry organisations undertake substantial research on behalf of investment clients that could be of benefit to Invest Australia's national investment promotion and attraction efforts.

Access to market intelligence held by private sector firms could assist considerably in targeting and refining Invest Australia's efforts. Invest Australia will examine mechanisms for regularly gaining high-level advice from the private sector to ensure the national investment framework's strategic direction is well informed by industry expertise.

Invest Australia will engage with peak industry organisations in priority sectors for investment promotion and attraction. Areas of cooperation could include, for example, joint research, the sharing of information about industry capability and investment needs, the development and implementation of sectoral investment attraction strategies, cluster development and joint marketing initiatives.

Joint activities with private sector 'multiplier organisations' (for example, international accounting firms or investment banks with a presence in key markets) and other organisations involved in the continual flow of information to prospective investors (such as consultants, utilities, personnel agencies and property agents), will be considered in the development of the rolling three-year marketing plan to be developed as part of the national investment framework.

In certain instances, private sector organisations will be best placed to work with companies on specific activities within the ICT, biotechnology or nanotechnology sectoral strategies. Examples include project managers for specific outward missions associated with a major international event.

### 7.7 Research mechanisms and partnerships

A strong, ongoing research agenda is required to ensure the strategic direction of the framework remains responsive to global investment markets, industry development objectives and the needs of potential investors. Following sound research and analysis, resources can be allocated efficiently to deliver a vigorous investment promotion, attraction and facilitation effort.

Invest Australia will use a range of consultative mechanisms to provide input to its ongoing research agenda. These will include drawing on work undertaken in Commonwealth and State and Territory industry departments, joint research managed by Invest Australia through the NIAB and the Commonwealth and State and Territory National Investment Research Group, and the commissioning of specialist private sector research providers.

To date, most research and analysis undertaken by Invest Australia has drawn on in-house desktop research and in-market intelligence from the overseas network. More detailed research is required, however, to enhance the comprehensiveness of information used for investment attraction activities. This will require the reallocation of resources for specifically commissioned market research and industry analysis.

Invest Australia has a range of mechanisms in place to support its in-house research and analysis. It has established a Research and Analysis Team dedicated to identifying, obtaining and producing data and analysis to support the production of generic and sector-specific marketing materials. Invest Australia's industry teams, through their work with investment clients, are also in a position to help identify generic and sectoral investment drivers, industry capability and competitor developments. In addition, in-market intelligence from Invest Australia's overseas network and the work of the International Support Group assists in identifying locational drivers, changes in client expectations and regionally specific factors affecting investment.

Invest Australia will continue to nurture key partnerships to support its in-house research efforts. The following are important mechanisms for developing these partnerships.

### Commonwealth and State and Territory National Investment Research Group

A Commonwealth and State and Territory National Investment Research Group has been established to ensure the States and Territories are partners in the research effort that underpins the national investment promotion and attraction effort. It helps to ensure a whole-of-government approach is adopted wherever possible and research resources are coordinated efficiently. The research group is chaired by Invest Australia and comprises representatives from State and Territory investment agencies and other Commonwealth agencies. It is supported by a secretariat provided by Invest Australia.

A key area of cooperation would be in commissioning market research to benchmark Australia at a detailed sectoral level against specific sectoral drivers for the ICT, biotechnology and nanotechnology sectors.

### Australian Bureau of Statistics

Invest Australia will consult with the Australian Bureau of Statistics (ABS) on options for better aligning its statistical and research activities with Invest Australia's information needs. The ABS has embarked on a series of studies on the economic activity of majority foreign-owned businesses in Australia. This is linked to an Organisation for Economic Cooperation and Development (OECD) initiative that has sponsored a working party to develop a framework to guide national statistical agencies in developing statistical indicators of economic globalisation. The draft framework includes indicators of FDI, the structure and activities of multinational firms and indicators on the international dissemination of technology.

Through the National Investment Research Group, the NIAB will request that the ABS enhance its FDI statistics to better meet the information needs of investment agencies. In particular, options for obtaining a more detailed disaggregation of FDI flows to Australia by market and priority sectors will be explored. The provision of such data by the ABS will allow consistent and authoritative national FDI data to be made available. In this context, the resource implications for the ABS will need to be taken into account.

### Key initiatives

- Invest Australia will assume a leadership role in the implementation of the national investment framework.
- The Employment and Infrastructure Committee of Cabinet and the Industry and Technology Ministers' Council will provide political-level oversight of the ongoing development and implementation of the national investment framework.
- Invest Australia will chair a National Investment Framework Inter-Departmental Committee (NIF IDC) to assist the development of a whole-of-Government approach to investment attraction.
- Invest Australia will work in partnership with the NIF IDC to ensure the efficient allocation of resources for investment-related research, particularly research on industry capabilities.
- A National Investment Advisory Board (NIAB) will be established to coordinate Commonwealth and State and Territory investment attraction activities.
- Invest Australia will use the Department of Foreign Affairs and Trade's overseas network primarily for high-level representational duties. To foster closer links between the two organisations, a new set of principles for future cooperation will be established to specify the roles and responsibilities of the department's posts, areas of cooperation with Invest Australia and effective reporting mechanisms.
- As part of its general responsibilities Austrade will provide Invest Australia with an inward investment referral service.
- Invest Australia will, as appropriate, forge strategic research alliances with the private sector to obtain investment-related information necessary for efficient and effective investment attraction activities.
- Invest Australia will examine mechanisms for gaining advice from the private sector on a regular basis and seek opportunities to partner with the private sector in investment promotion and attraction activities.
- Invest Australia will chair a Commonwealth and State and Territory National Investment Research Group to coordinate a whole-of-government approach to investment-related research and analysis.
- Invest Australia, with the Australian Bureau of Statistics, will explore options for obtaining an enhanced disaggregation of FDI inflows to Australia by market and priority sectors.

## 8. DELIVERING ON THE NATIONAL INVESTMENT FRAMEWORK

*The vision is one of a dynamic Invest Australia able to promote, attract and facilitate new business in Australia to drive economic growth for the future.*<sup>120</sup>

### 8.1 A new Invest Australia

In response to the Blackburne review, the Commonwealth Government has transformed Invest Australia into an agency with the flexibility to drive an integrated inward investment promotion and attraction effort.

#### Chief Executive Officer

The Blackburne report recommended that a chief executive officer for Invest Australia be appointed with 'the marketing, presentation and leadership skills necessary to facilitate cooperation among the stakeholders and be an ambassador for attracting investment into Australia'.

The Government has appointed a Chief Executive Officer who meets these criteria. He will provide the vision and leadership necessary to enable Invest Australia to fulfil its mission, and the position will be the eminent public face of investment attraction and promotion in Australia.

#### Corporate Plan 2002-03

Invest Australia has released a Corporate Plan for 2002-03, which articulates its mission, objectives, major activities and performance indicators for the year. It gives Invest Australia and its stakeholders a clear understanding of what Invest Australia is and what it is trying to achieve.

Invest Australia's mission is to attract productive foreign direct investment (FDI) into Australia to support sustainable industry growth and development.

Invest Australia's key objectives for 2002-03 are:

- to forge a national, strategic approach to investment promotion and attraction by nurturing productive partnerships with other government agencies and industry.
- to ensure Australia's investment attraction efforts are based on a highly developed knowledge of the global investment climate, and the competitive advantages and investment needs of industry.

- to enhance Australia's reputation as an internationally competitive investment destination through world's best-practice marketing initiatives.
- to undertake targeted investment attraction activities, taking account of the needs of specific industry sectors and markets.
- to provide investors with professional, efficient and relevant advisory services and programs to facilitate their investments in Australia.

#### Corporate identity

Invest Australia will ensure the consistency of its corporate identity, including logo, branding and other marketing collateral.

In the competitive investment attraction environment, a strong and identifiable image is imperative on all promotional and corporate materials. In particular, there is a need to ensure conceptual consistency to bind corporate communication, design and character. The approach to a consistent corporate identity may involve an assessment of the visual and writing styles of Invest Australia's communications products, the completion of artwork for Invest Australia's corporate logo, and the development of a Corporate Identity Visual Standards Manual.

A strong and consistent corporate identity and brand will connect Invest Australia with its target audience, attract and influence present and future clients, and work to create a business advantage.

#### Client service charter

The development of a marketing and client service culture, focused on the needs of investors, is integral to Invest Australia being a successful investment promotion and attraction agency.

<sup>120</sup> Blackburne 2001, op. cit., p.(vii).

Invest Australia has developed a client service charter, which serves as a basis for client interaction and codifies the organisation's commitment to best-practice service delivery. Through formalisation of a client feedback process, the charter will also act as a mechanism for identifying self-improvement opportunities for the agency.

### Key performance indicators 2002-03

In 2002-03, Invest Australia will measure its performance against a range of quantity, quality and cost indicators, including:

- the total number and dollar value of investments confirmed for Australia by sector;
- the total employment and export impacts of investments confirmed;
- client and stakeholder satisfaction; and
- the cost of providing Invest Australia services.

Its performance will also be measured by its progress in effectively implementing the key initiatives of the national investment framework.

## 8.2 Measuring and reporting on the performance of the national investment framework

The national investment framework is intended to operate over a three-year period, after which the Government will commission a review of strategic direction and performance. The first three-year period extends to the end of 2005.

The following are examples of indicators that may be adopted by the review to measure performance against the four objectives of the framework:

### Objective 1: FDI contributes to overall economic growth and industry development in Australia.

- Contribution by multinational corporations to Australian employment, exports, business expenditure on research and development, and strategic alliances.

### Objective 2: Australia maximises the benefits of FDI, particularly in terms of the quantity and quality of investment attracted to Australia, the sectors into which it is attracted and the sustainable benefits achieved.

- The number and value of projects attracted that meet the national investment framework's strategic investment project criteria.
- Any reinvestment by those multinational corporations.

### Objective 3: The messages received by potential investors about Australia are clear and consistent.

- Feedback from overseas stakeholders on Australia's image and positioning as an investment location.

### Objective 4: The approach to promoting, attracting and facilitating investment is seamless for potential investors and is carried out in the most efficient and cost-effective manner.

- Feedback from multinational corporations that have invested in Australia.
- Cost comparisons with competitor investment agencies.

The review will be published in an *Investment Outcomes and Objectives Statement* to be tabled in Parliament every three years by the Commonwealth Industry Minister at the completion of the framework's triennium. The statement will include information on how Invest Australia is progressing against its performance indicators and the key initiatives of the framework. It will also report on Invest Australia's partnerships with other entities, and the strategic direction and initiatives to be undertaken in the forward triennium.

### Key initiatives

- The Government has appointed a high-profile Chief Executive Officer to provide vision and leadership to enable Invest Australia to fulfil its mission.
- Invest Australia has released a Corporate Plan for 2002-03 which articulates clearly its mission, objectives, major activities and performance indicators for the year.
- Invest Australia will ensure consistency in its corporate identity, including logo, branding and other marketing collateral.
- Invest Australia has developed a client service charter to codify the organisation's commitment to excellence in service delivery.
- Invest Australia will measure its performance against a range of quantity, quality and cost indicators.
- The Commonwealth Industry Minister will table an *Investment Outcomes and Objectives Statement* in Parliament every three years, to review the strategic direction and performance of Invest Australia and the national investment framework.

## List of acronyms

ABS	Australian Bureau of Statistics
BENC	Biotechnology Events National Committee
BLEU	Belgium-Luxembourg Economic Union
EU	European Union
FDI	foreign direct investment
GDP	gross domestic product
GST	goods and services tax
IASSP	Invest Australia Supported Skills Program
ICT	information and communications technology
ICTENC	Information and Communications Technology Events National Committee
LNG	liquefied natural gas
MPF	Major Project Facilitation
NIAB	National Investment Advisory Board
NIF IDC	National Investment Framework Inter-Departmental Committee
OECD	Organisation for Economic Cooperation and Development
R&D	Research and Development
SIC	Strategic Investment Coordination
SMEs	small to medium-sized enterprises
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
US	United States
VC	venture capital
WCIT	World Congress on Information Technology









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