Evaluation of the Investment Promotion and Facilitation Program

Report 96/4

March 1996

Australian Government Publishing Service
Canberra

ISBN

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Produced by the Australian Government Publishing Service

Foreword

The Investment Promotion and Facilitation Program originated to address concerns that potential investors overseas were unaware of Australia's investment potential and to counter investment promotion by other nations. This evaluation is part of the first review of the entire program since its inception in 1987.

The BIE called for submissions to assist its evaluation. The BIE thanks the organisations and individuals who provided information in response to that call.

As part of its study, the BIE surveyed all companies involved with the program and held discussions with a selection of those companies and private sector providers of investment promotion and facilitation. The BIE is grateful to the representatives of the participating firms for their generous cooperation and assistance. The BIE also thanks the program's Investment Commissioners whose help was invaluable in meeting with investing firms overseas and conducting the survey of program firms.

We particularly acknowledge the valuable information and assistance provided by the Australian program staff in Austrade (Investment Australia) and within the Department of Industry, Science and Technology.

This report was researched and written by Stewart Plain, Helen Monro, Alan Madge, Mark Bersten and Brett Martyn — with assistance from Rob Brooker and Peter Dempster. Ian Monday, the internal referee, provided many helpful comments. The research team was supported by Karin Mueck and later Mary Kapotas. Heather Hibbitt's contribution to finalising the report for publication is gratefully acknowledged. Chris Legg and Denise Ironfield supervised the initial stages of the evaluation. Deborah Peterson assumed this responsibility as Assistant Secretary of the Government Services Branch of the BIE from July 1995.

March 1996

Bob Hawkins
Director

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Executive summary

In common with many other governments, the Australian government in recent years has implemented a range of reforms to provide an attractive business climate. However, there are concerns that foreign investors may lack sufficient information about Australia to enable them to accurately compare it with competing locations and that private markets may lack the incentive to fully address this deficiency. To address such concerns and to counter active promotion by competing locations, the Investment Promotion Program — now the Investment Promotion and Facilitation Program (IPFP) — was introduced in 1987 to encourage foreign direct investment (FDI) in Australia. The program is a joint Commonwealth, states and territories initiative.

Origin of evaluation

This evaluation of the IPFP by the BIE follows significant changes in the program's operating environment and in its scope and management since its inception. It reflects the Commonwealth government's recent emphasis on investment linkages between Australian and overseas markets, and its commitment to effective program management.

The BIE evaluation was commissioned by an interdepartmental steering committee in December 1994 and is part of a broader assessment of the IPFP by the committee. This is the first independent evaluation of the entire program since the program began.

Evaluation task and results

The BIE's evaluation concentrated on the appropriateness, effectiveness and overall net benefit of the IPFP, in order to assess whether the program should continue and whether any improvements were warranted. The results of the evaluation follow.

Appropriateness

The BIE's research confirmed that foreign investment in Australia has been inhibited by negative perceptions of Australia as a location for investment held by foreign potential investors and their lack of awareness of investment opportunities in Australia. Private markets do not always provide the incentive and expertise to fully address these deficiencies. For example, property rights over general information about Australia are not well defined, so that such information is likely to be undersupplied. The BIE is satisfied that the IPFP is an appropriate intervention to deliver promotion and facilitation services and has successfully done so (see chapter 4).

Objectives and outcomes

The IPFP's objectives may be summarised as follows:

- improve the perception of Australia as a foreign investment destination;
- facilitate links between prospective investors and commercial opportunities in Australia by complementing private activity, encouraging technology transfer to Australia and improving the access of Australian industry to global markets;
- foster a cooperative approach to investment promotion between the states, territories and the Commonwealth;
- encourage and facilitate major companies to establish regional headquarters in Australia; and
- encourage investment in Australia by guiding industry through government approval processes.

These objectives appear to be consistent with the Commonwealth government's focus on integrating Australia into the global (and especially Asian) economy and with its recent emphasis on investment policy.

The BIE considers the program's outcomes have met all of its objectives (see chapter 6). It is satisfied that the IPFP has been successful at the margin in attracting additional foreign direct investment (FDI) to Australia. The BIE estimates that around A$235 million a year on average has probably been directly invested in Australia by foreign companies as a result of the IPFP's activities over the three financial years 1992-93 to 1994-95 (chapter 5). This figure should be treated as indicative rather than definitive.

However, two objectives warrant changing. This reflects in part the evolution of the program and its more specific targeting of firms. It also reflects the difficulty in measuring the performance of the program against one of its objectives and, thus, in assessing how effective the program is. In view of the IPFP's evolving relationship with other agencies of government — particularly in feeding the experience of the program back to investment policy makers — the IPFP needs an additional objective to acknowledge this role.

Accordingly, the BIE recommends the first objective for the IPFP should be revised along the lines of: 'Promote Australia as a location for direct investment to those firms with potential to invest in Australia by overcoming knowledge deficiencies at the firm level in particular, having regard to Australia's competitive strengths and with an emphasis on manufacturing and services projects'.

In addition, the BIE recommends adding a subsidiary objective to the existing objectives of the IPFP along the lines of: 'Identify systemic and specific impediments to investment in Australia, based on its activities, and advise government of any such impediments'.

Benefits and costs

The BIE has taken an economywide view of the effects of any additional activity induced by the IPFP which assumes that such activity will largely displace domestic activity in the long run (see chapter 7). Accordingly, while it is likely that there has been a short term increase in economic activity and employment resulting from an IPFP-induced increase in FDI, IPFP-induced FDI is not likely to lead to a significantly expanded Australian capital stock in the long run. However, IPFP-induced FDI may increase the quality of Australia's capital stock by introducing better methods of production or by better matching Australia's stock to international market conditions. The BIE considers that such positive spillovers are likely to constitute the main benefits to Australia associated with foreign investment induced by the IPFP.

The BIE considers that the IPFP benefits — although difficult to quantify — are likely to exceed its costs at the current level of program expenditure. Specifically, as long as every dollar of IPFP-induced FDI over the past three financial years has net spillover and other benefits of at least seven cents, the benefits of the program are estimated to exceed the costs of program expenditure. The BIE considers this is a plausible outcome.

As such spillovers appear to be a major source of potential benefits from the IPFP, this is an area in which more work needs to be done.

Other incentives

Various incentives are available to investors in IPFP-induced projects from Commonwealth, state and territory governments which, while not part of the program, also seek to encourage investment in Australia. Such incentives — either to attract projects to Australia or to entice a project locating in Australia to go to one jurisdiction rather than another — are a matter of concern to the BIE (chapter 7).

At the Commonwealth level these incentives are chiefly confined to the regional headquarters campaign and primarily take the form of certain exemptions from wholesale sales tax and deductions for some relocation expenses. These incentives have the potential to overwhelm the net benefits of the IPFP. The scale of any such future incentives and their incidence depends on the rigour with which the relevant guidelines are administered. Consideration could be given to converting these tax subsidies to a grants scheme administered by DIST. If the current tax subsidy arrangements are kept, the BIE considers that the existing legislated guidelines for awarding regional headquarter status to firms should be rigorously administered and their implementation adequately resourced. For the existing arrangements, the current separation of responsibility for application approval from DIST is endorsed.

Administrative arrangements for future delivery

The resources devoted to the operation of the IPFP are relatively small in dollar terms and small relative to the resources devoted to investment promotion by some of Australia's nearby competitors for FDI. The IPFP's strategy of targeting specific countries for investment promotion appears soundly based. The program has generally been responsive to changing conditions by shifting resources between and within countries.

Pursuing sector targets should not exclude pursuing niche opportunities to overcome knowledge deficiencies at the firm level. The BIE endorses current practice, which provides flexibility to investment commissioners in choosing target firms and projects.

The monitoring of the IPFP's internal performance has improved since the 1991-92 internal review, but the Austrade and Department of Industry, Science and Technology (DIST) databases still exhibit significant gaps and inconsistencies in IPFP project information. This requires considerable further improvement.

Australian investment briefs were found to be an important marketing tool in gaining access to key decision makers in specific firms. Their importance suggests additional resources should be applied to them.

The scope for charging fees for services aimed at overseas investors appears to be limited. It appears more practical to recover costs from the Australian proponents of projects embodied in investment briefs. This warrants further examination by program administrators.

The IPFP has been instrumental in improving coordination and cooperation among Commonwealth, state and territory agencies in investment promotion and facilitation. It has demonstrated its capacity to respond positively to pressure for change and for continuous improvement.

Overall, the BIE considers the IPFP has done much with relatively few resources. The BIE recommends that the Commonwealth government should continue at least the present level of aggregate real budget funding for the program. If the program were to increase its overseas presence modestly with a commensurate increase in Australia to support such an increase, it is likely to continue to yield benefits greater than costs for the short to medium term. Accordingly, a modest expansion of the IPFP appears warranted. However, such an expansion would need to be weighed against competing demands for budget monies.

1 Introduction

Australia has historically relied on capital inflow to augment domestic savings available for investment. This is still the case today. But countries are becoming increasingly competitive in attracting capital. In recent years governments have begun to enhance the appeal of their economies to foreign investors by initiating a range of policies to improve the fundamentals of the marketplace and provide an attractive business climate. These policies have focused, for example, on the areas of taxation, labour markets and infrastructure. Australia is no exception in this regard.

There are, however, concerns that ‘getting the market fundamentals right’ is not always enough. One particular concern is that foreign investors may not have sufficient information about Australia to accurately compare its attractiveness with competing locations. Another concern is that private markets do not have sufficient incentive to fully address this deficiency.

To address such concerns — and to counter the promotion of competing locations — the Investment Promotion Program (IPP) was introduced in 1987 to encourage foreign direct investment (FDI) in Australia.[1] The program is a joint Commonwealth, states and territories initiative.

The environment in which the program operates has changed significantly since the program’s introduction. However, the program has been evaluated only once — a partial review by an internal group in 1991-92. Moreover, since that review there have been significant changes to the scope and management of the program. Some of these, such as altered objectives and a narrower focus of effort, arose out of the 1991-92 review. Others, such as taking up responsibility for the regional headquarters initiative and major projects facilitation in 1993, have come from initiatives of the Commonwealth government.

Such changes and the government’s recent emphasis on investment linkages between Australian and overseas markets, and commitment to effective program management led to the current evaluation. This broader evaluation is thus the first independent evaluation of the entire program since its inception in 1987.

1 FDI involves having a *significant influence* in a local business by a foreign entity, as opposed to portfolio investment, which is essentially a flow of finance to the host country in exchange for domestically owned assets. A *significant influence* may involve the establishment of a new enterprise or the acquisition of a full or part interest in an existing business.

1.1 Current evaluation

In December 1994 an interdepartmental steering committee commissioned the BIE to evaluate the Investment Promotion and Facilitation Program (IPFP). The committee comprised representatives from Austrade, the Department of Industry, Science and Technology (DIST), the Department of Finance and the Department of Foreign Affairs and Trade.

The terms of reference for the evaluation are summarised in box 1.1. Essentially, the BIE was required to assess whether Australian taxpayers are getting value for money and whether the program should continue in its present or a modified form.

Box 1.1 Terms of reference

1. Assess the impact of the program in attracting and facilitating productive investment in Australia.

2. Having regard to the stated objectives of the program, as amended from time to time, assess the effectiveness and efficiency of the program, including:

   - the suitability of current strategies and activities; and
   - whether there are any significant impediments to the effectiveness of the program.

3. Consider and report on any wider impacts the program may have.

4. In light of the above, review the appropriateness of the Investment Promotion and Facilitation Program against the economic rationale of correcting market failure.

5. On the basis of the above, report on and make recommendations as to whether the program should continue in its present or a modified form and, if so, on any improvements, including:

   - resources;
   - program objectives, strategic priorities, targeting, organisational structures and activities; and
   - performance measurements.

The review is to be completed in time to allow the results to be incorporated into the 1996-97 budget process.

The BIE evaluation is part of a broader evaluation of the program by the steering committee. That broader evaluation also includes a review of global best practice in investment promotion and the program’s management and organisation.

1.2 Evaluation issues

A core issue for the evaluation is the appropriateness of the IPFP against the economic rationale of correcting 'market failure'. That is, is government intervention in the form of the IPFP warranted on the basis of market failure? See Cowen (1988) for an extensive treatment of the literature on market failure.

Addressing this issue first requires establishing whether market failure exists. In the context of this program, this means examining whether the supply of commercial information to investors is deficient and whether this and investors' perceptions of Australia inhibit FDI in Australia. It requires assessing whether market forces could resolve any such market failures.

Evidence of market failure alone is not sufficient justification for government intervention. Government intervention has to be able to ***correct*** the market failure. The evaluation therefore has to assess whether the IPFP has done this. Furthermore, because intervention involves costs as well as benefits, the evaluation has to determine the ***net*** effect of the intervention. For the program to be worthwhile it must have a net benefit.

To establish the net effect of the program the BIE had to estimate program costs and benefits. And to do this it had to assess what would have happened in the absence of the program so that it could determine how much FDI in Australia the program had induced. Also important in this regard is an assessment of benefits and costs from an economywide perspective. But such an exercise is far from straightforward, and a comprehensive benefit–cost analysis is beyond the scope of this evaluation.

Another core issue is whether intervention (that is, the IPFP) is effective and efficient. Central to establishing effectiveness is testing the program's outcomes against its stated objectives. Whether it is efficient requires assessing its internal and dynamic efficiency. The BIE has limited its review of this aspect of the program, since this is the subject of a management consultancy commissioned as part of the broader program review.

An important question for any evaluation of a program is: can it be improved? A number of suggestions for improvement arise out of the preceding assessment.

In summary, the major issues for the evaluation fall into four main areas:

- the presence and significance of market failure and the ability of government to correct any such failure;
- the impact of the program and the net benefit to society accruing from it;
- the effectiveness and efficiency of the program; and
- the suitability and scope for improving of current strategies and activities.

1.3 Conduct of the evaluation

In conducting the evaluation the BIE sought comment from interested parties. This involved advertising the evaluation in major newspapers and calling for submissions. It also involved mailing an issues paper to select Commonwealth, state and territory government agencies, academics, private sector intermediaries and other interested parties with a request for comment.

The BIE also undertook two surveys. The first of these concerned the perceptions of foreign potential investors of the Australian business environment. This was a telephone survey of business executives in Japan, the United Kingdom and the United States. A total of 91 firms — 31 in Japan, 30 in the United Kingdom and 30 in the United States — were contacted. This survey is described in appendix D.

The second survey was on the role and impact of the program. The BIE organised for questionnaires to be sent to some 190 firms involved with the program. This survey asked questions covering, for example, the importance of the program as a source of information; whether investment would have proceeded without the services the program provided; the effectiveness of the facilitation role of the program; and the benefits to Australia from their investment. This survey is described in appendix C.

The evaluation team held extensive discussions with program stakeholders in Australia and overseas. These included discussions with DIST and Austrade personnel involved with the program, state and territory investment agencies, investment commissioners and IPFP firms. Private sector suppliers of matchmaking, information and general facilitation services to foreign investors were also interviewed. The purpose of these latter discussions was to establish the degree of complementarity or substitution between the program and its private sector counterparts. A major objective here was to assess whether the IPFP was displacing private sector foreign investment promotion and facilitation activities.

1.4 Outline of the report

Australia's post-war experience of FDI is outlined in chapter 2 along with some of the influences on firms' decisions to invest abroad and on why they choose one overseas location rather than another. A description of the program, including its evolution and operation is provided in chapter 3. In chapter 4 the appropriateness of the IPFP is assessed against the rationale of correcting for market failure, and evidence is provided that the program has played a role in overcoming deficiencies in the private provision of promotion services.

Claims by Austrade and DIST of the impact of the program in attracting FDI to Australia are examined in chapter 5, and estimates of the value of FDI likely to have been induced by the IPFP are provided. The objectives of the IPFP are assessed against the outcomes of the program in chapter 6. Also in chapter 6 some suggestions for varying the existing objectives and for a new objective are provided.

An assessment of the likely net costs and benefits of the IPFP is provided in chapter 7. Various other government incentives, while not part of the IPFP, similarly aim to attract FDI to Australia, and are also assessed in this chapter. In chapter 8 the strategies and activities of the IPFP are reviewed, and brief comments on the division of program functions between Austrade and DIST are provided. Some suggestions for improving the operation of the IPFP are also outlined in chapter 8.

Finally, a summary of the main findings and recommendations of this evaluation and the implications for the IPFP's resources are presented in chapter 9.

2 Foreign direct investment: trends and determinants

Foreign direct investment (FDI) has played a significant role in Australia's economic development. What influences the decisions of firms to locate their FDI in Australia? How may governments influence these decisions?

These and related questions are considered in this chapter. Australia's FDI experience is outlined in section 2.1. Factors influencing firms' decisions to invest abroad are discussed in section 2.2. Influences on a firm's choice of one country over another and related empirical studies are summarised in section 2.3. The implications of these influences for government policy are discussed in section 2.4.

2.1 Australia's FDI experience

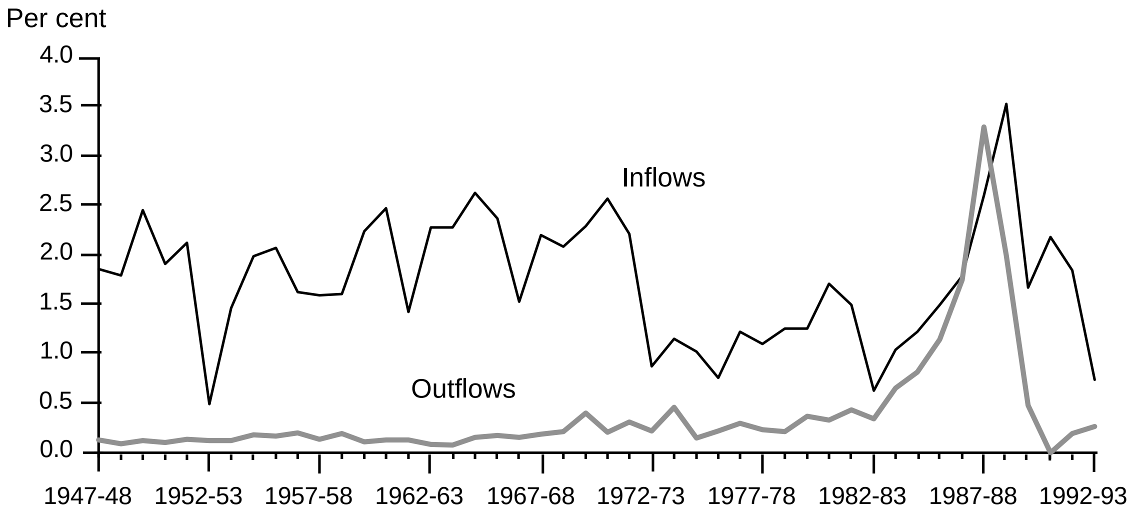
The availability of foreign capital has been crucial for Australia's development since European settlement. Until well into the twentieth century, Australia's economic development was driven by its relative abundance of land (including ores and minerals) and the relative scarcity and high returns available to capital and labour in Australia (Sinclair 1976). Under these circumstances private (mainly British) capital flowed into Australia in large quantities. Foreign capital was instrumental in financing the late nineteenth century public infrastructure, such as railways, ports, roads and public buildings. Similarly, the development of Australia's manufacturing sector in this century owed much to foreign capital (Hutchinson and Nicholas 1992).

Official statistics on capital flows to and from Australia are available from 1947-48. Since FDI flows generally increase as an economy grows, the flows to and from Australia since then are shown in figure 2.1 relative to gross domestic product (GDP).

For inwards FDI there are three distinct periods. In the first, from 1947-48 to 1971-72, FDI flowed into Australia at a trend rate of about 2 per cent of GDP. The annual variability over this period largely reflects the impact of recessions in the early 1950s, 1960s and 1970s. The second distinct period is 1972-73 to 1982-83. In this period, the trend rate for FDI was consistently lower than in the previous period, at about 1 per cent of GDP. This period ends with a sharp fall in the FDI inflow, reflecting the recession of 1982-83 and the end of the 'resources boom'.

The third period is from 1982-83 onwards. From a near historic low in 1982-83, FDI inflow grew rapidly to peak at about 3 per cent of GDP in 1988-89. This growth reflected the major policy changes taking place in Australia and internationally in the early 1980s. Financial markets were deregulated, thus reducing impediments to international capital flows. As a consequence, global and Australian FDI flows increased sharply. After 1988-89, Australian FDI inflow relative to GDP fell sharply, reflecting the impact of a recession in Australia and slow growth in the major world economies.

Figure 2.1 FDI flows as a percentage of GDP, 1947-48 to 1992-93



Note: For ease of exposition, negative FDI flows are set to zero. Negative FDI flows are a consequence of disinvestment (that is, the withdrawal of FDI from the host country).
Sources: ABS 1994 and previous years; BIE (1993).

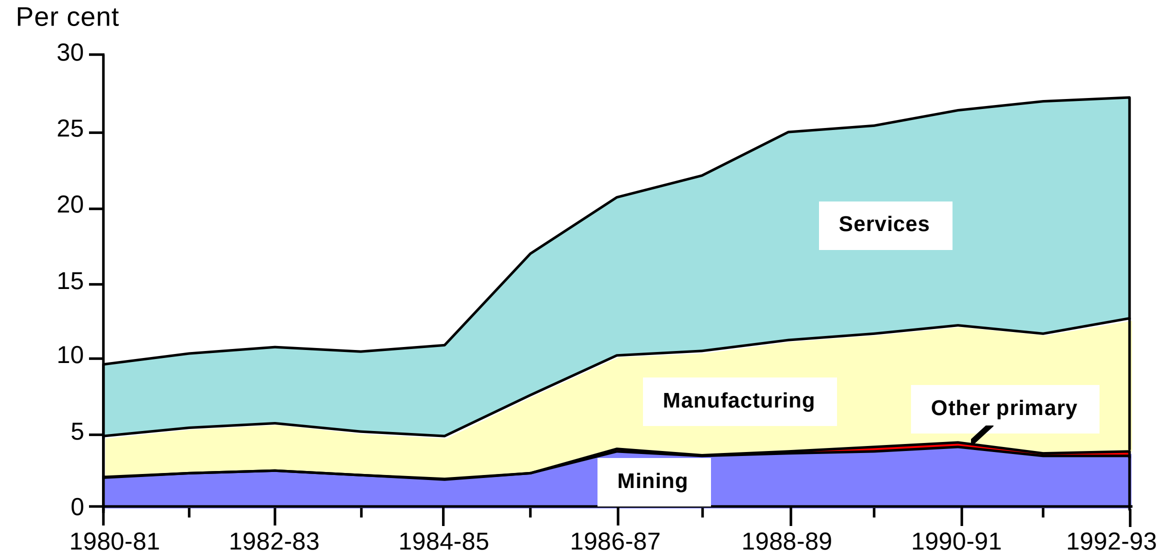
For most of the time since 1947-48 Australia's FDI outflows relative to GDP have been small relative to inflows. However, after Australia's financial deregulation of the early 1980s, FDI abroad grew rapidly, exceeding the inflow in 1987-88. Since then, Australia's FDI outflow has fallen sharply, reflecting the 1990-91 recession. For a discussion of the motives, determinants and expectations of Australian firms investing abroad, see BIE (1995e). For a detailed statistical description of the patterns of Australian investment abroad in recent years, see BIE (1995a).

Over time, the flows of FDI accumulate as FDI stocks. Changes in the stocks of FDI give a clearer picture of underlying trends by eliminating the year to year volatility associated with FDI flows. Stocks of FDI in the mining, manufacturing and services sectors relative to GDP are shown in figure 2.2. Two facts stand out — the marked growth in FDI stock since 1984-85 and the pronounced growth of the FDI stocks in services.

For most of Australia's recent history, the United Kingdom and the United States have been major sources of FDI. However, as shown in figure 2.3, Australia's reliance on the United Kingdom as a source of FDI has fallen considerably since 1984-85. The relative role of the United States as a source of FDI declined significantly between 1980-81 and 1984-85. Since then, however, there has been a relative resurgence of

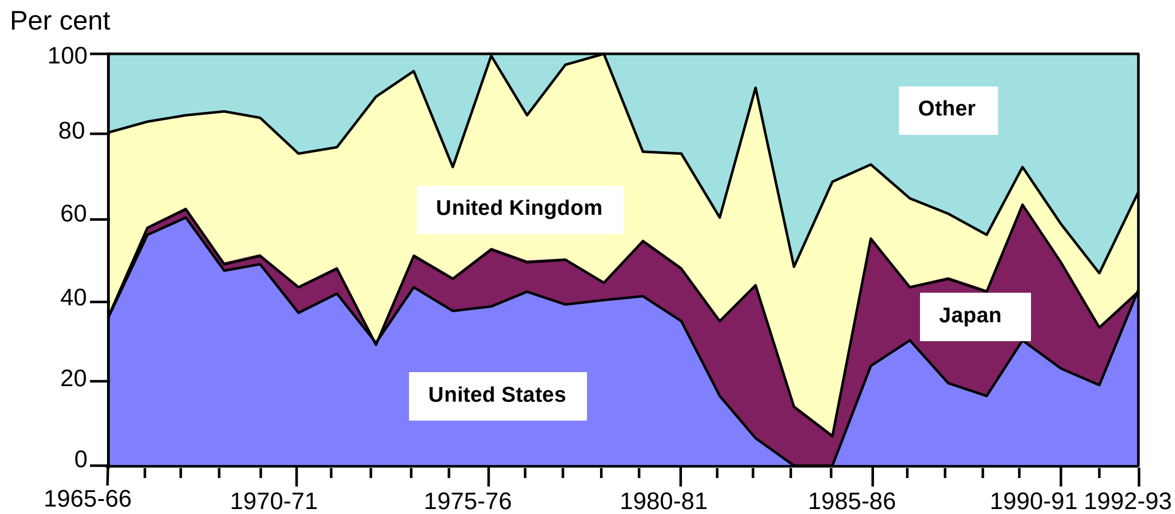
FDI from the United States with its share of Australia's total FDI inflow approaching its historical average of some 40 per cent.

Figure 2.2 FDI stocks in Australia as a percentage of GDP, by industry sector, 1980-81 to 1992-93



Note: Services comprises ASIC divisions D to M inclusive. Other primary comprises ASIC division A. Mining and Manufacturing comprise ASIC divisions B and C respectively.
Sources: ABS Cat. No. 5305.0 (various years); BIE (1993).

Figure 2.3 Contributions by major source countries to FDI flows to Australia, 1965-66 to 1992-93



Note: For ease of exposition, negative FDI flows are set to zero.
Sources: ABS (1994 and previous years).

FDI from Japan increased in relative importance over the period covered in figure 2.3, mirroring its growing global importance as a supplier of FDI. More recently Japanese FDI in Australia has fallen. This decrease parallels a general decline in Japanese investment abroad and reflects the recent sluggish state of the Japanese economy (UNCTAD 1994).

The relative decline in FDI flows from Japan, the United Kingdom, and the United States has been offset by growing contributions from some western European and Asian countries, diversifying Australia's FDI sources.

2.2 Why firms invest abroad

By far the major portion of FDI is undertaken by firms rather than individuals. Theories on why firms invest abroad fall into three categories: microeconomic, which relate to reasons intrinsic to the investing firm; macroeconomic, which relate to factors exogenous to the firm such as changing relative rates of return, exchange rates and changing national comparative advantage; and a business strategy framework. These categories are complementary rather than competing explanations.

2.2.1 Microeconomic factors

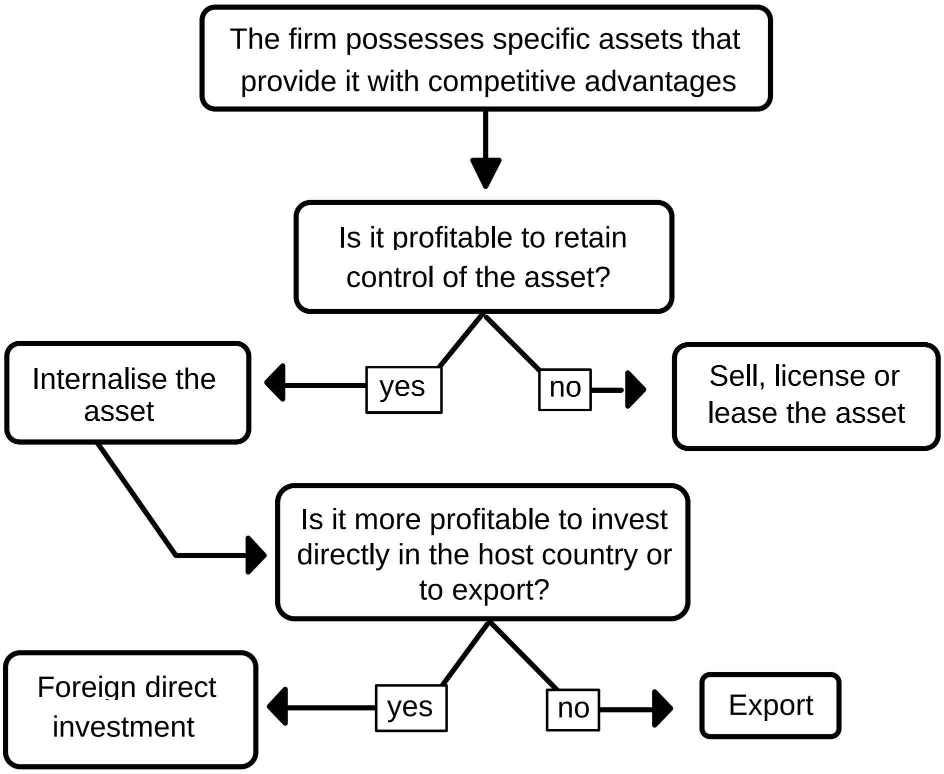
Modern microeconomic theories on firms' foreign investment date from the work of Hymer (1976). Hymer considered that FDI is motivated by a firm seeking to increase its profits by exploiting its inherent advantages in another country. These advantages include access to patented technology, specific management or marketing skills and ownership of brand names. They are commonly referred to as ownership advantages (similar to the concepts of core competencies or competitive advantages).

Hymer argued that firms indigenous to a particular country possess home country advantages, such as better knowledge of the host country's language, laws and politics. To be successful in an alien environment, the investing firm's ownership advantages need to more than offset the home country advantages possessed by competing home country firms.

However, there are other ways a firm may exploit its inherent advantages. It may, for example, license its technology or export its product. In Hymer's framework, firms choose between options on the basis of their relative profitability.

Dunning (1977, 1979) built on the work of Hymer and others to form the ownership, location and internalisation (OLI) framework for investment by multinational enterprises. Dunning's OLI framework is outlined schematically in figure 2.4.

Figure 2.4 Dunning's OLI framework for FDI



Sources: Adapted from Dunning (1993) and BIE (1993, 1995e).

OLI framework

A necessary condition for a firm to invest abroad is that its net ownership advantages in serving particular markets must exceed the advantages of other firms. These ownership advantages derive largely from the possession of intangible assets that are exclusive or specific to the firm at least for a period of time. Examples of such intangible assets include advanced technology, superior production techniques, patents, trademarks, management skills and exclusive access to markets or raw materials.

Assuming the above condition is satisfied, the firm's decision makers must decide whether to retain control of the firm's specific assets by investing abroad or exporting (internalising of the specific assets), or to sell or lease the assets to other firms. The firm chooses the most profitable of these two basic courses of action. The need to make this choice reflects 'imperfections' in transactions markets. The imperfections relate to the cost (in some cases near impossibility) of writing contracts to cover the firm's intangible assets such as organisational skills, marketing expertise and management experience.

After satisfying both ownership and internalisation conditions, the firm must then decide between serving the foreign market by exporting or by direct investment. Similar to the internalisation decision, the firm decides between these two alternatives on the basis of their relative profitability. Factors influencing the relative profitability of FDI and exporting include freight costs, market size and growth, input costs (including labour) and quality of inputs, and political stability.

2.2.2 Macroeconomic factors

As just discussed, the microeconomic theories of firms' foreign investment decisions focus on factors internal to the firms. However, it is unrealistic to suppose that factors outside the firms — in broad terms, the firms' business environments — do not exert an influence.

Underlying the microeconomic decisions of firms are changing relative rates of return between the investing firms' host country and alternative foreign locations for their activities. Changing relative rates of return reflect in part different macroeconomic policies and their impacts on, for example, exchange rates and the relative costs of capital between the firms' domestic economy and overseas markets. For example, a fall in the relative price of the host country's currency will make foreign assets cheaper, therefore providing an impetus to FDI. Similarly, changes in taxation and a decline in the domestic share market can make foreign investment more attractive. Moreover, to the extent that a host country's economic growth reflects its macroeconomic and microeconomic policy choices, there could be indirect or 'second round effects' on the relative attractiveness of investment at home or abroad. Clearly, similar factors also influence the relative attractiveness of investing in different countries.

In the longer term, the major macroeconomic factor influencing firms' foreign investment decisions is the countries' comparative advantages. Underlying a country's comparative advantage is its factor endowments: its abundance of capital, labour and land (including minerals) relative to other countries. A country's advantage changes as it develops — its endowments of physical and human capital grow, and its real wages and living standards rise. This has been demonstrated by changing trends in FDI flows in the APEC region (BIE 1995c).

2.2.3 Business strategy framework

Another strand of theory seeking to explain foreign investment behaviour uses a business strategy framework (Dunning 1993). This work complements the more economic theories of the determinants of firms' FDI.

Definitions of 'business strategy' abound. While they differ in particulars, common elements emphasise business strategy as a guide for a firm's decisions, including marketing, production, investment and locational decisions. Firms choose a business strategy to exploit, protect or enhance their competitive advantages or core competencies.

Determinants of a firm's choice of strategy fall into two categories: those internal to the firm (endogenous) and those external to the firm (exogenous). Endogenous determinants include the firm's core competencies (what it is good at) and the management philosophy and business beliefs of its key decision makers. Exogenous determinants relate to the business and political environment in which it operates. Included among exogenous determinants are the strategies and reactions of rival and allied firms, government regulations, and the competencies and bargaining power of suppliers.

As for all major decisions, a firm's decision to invest abroad takes place in the context of its overall business strategy. Its business strategy will guide not only its decision to invest abroad, but also the related decisions on which parts of its value chain to invest abroad; which country to invest in; and what form of the investment to make (whether to establish a greenfields operation or acquire an existing business as a subsidiary, joint venture or strategic alliance).

Douglas and Craig (1989, 1995) suggest that firms' business strategies change over time. They see four distinct stages: an initial stage of domestic focus, a second stage of initial entry to a foreign market, a third stage of overseas 'beachhead' expansion and a final stage of global rationalisation. The 'triggering factors' relevant for the latter three stages are outlined in table 2.1.

Table 2.1 Factors triggering FDI in business strategies

Initial foreign market entry or beachhead stage	*Beachhead expansion stage*	*Global rationalisation stage*
Saturation of domestic market	Local market growth	Cost inefficiencies and duplication of effort between countries
Movement of domestic customers overseas	Meeting local competition	Learning via transfer of ideas and experience
Sourcing opportunities overseas	Local management initiative and motivation	Emergence of global customers
Entry of foreign competition in home market	Desire to use local assets more effectively	Emergence of global competition
Desire to keep abreast of technological changes		Development of global marketing infrastructure
Advances in communications technology and marketing infrastructure		
Diversification of risk		
Government incentives		

Sources: Douglas and Craig (1989, 1995).

2.3 Why firms choose one location over another

Insight is provided in section 2.2 as to why and when firms might invest abroad. It does not address the crucial question of why one foreign location is chosen over another. In such a choice, market oriented factors (for example, relative costs, market prospects, the quality of infrastructure and host government policies) and the personal preferences of a firm's decision makers (for example, their preferences for particular physical and cultural environments) are likely to play a role (see box 2.1).

Box 2.1 FDI location decisions: two examples

Personal preferences

A European computer software firm located in Australia rather than the United States principally because its chief executive and major shareholder regarded American society as 'too aggressive'. A further factor was that another senior executive of the firm had grown up in Australia. More profit oriented factors influencing the firm to investment in Australia were the high demand for their products from local mining firms, Australia's proximity to Asia and the recent location of a key European customer here. Nevertheless, it was clear that most weight was given to the personal preferences of the company's principal in the location decision.

Market oriented factors

By way of contrast, no weight was given to decision makers' personal preferences in the case of a high technology firm seeking to serve markets in Asia from either Singapore or Australia. Factors considered by this firm included:

- availability, quality and price of a key material;
- proximity to main markets;
- freight time and cost;
- quality of infrastructure, especially deep sea ports;
- safety from technology theft;
- availability of cheap land for expansion;
- easy and efficient access to government;
- minimal government interference;
- incentives and tax concessions (including for research and development);
- work ethic; and
- estimated future domestic currency values.

Sources: BIE interviews.

In BIE (1993) the significance of various locational determinants for FDI, including market size and growth, transport costs, tariff protection and government policies is assessed. After an extensive review of literature in the area, this report concluded that while market-size and growth appear to be influential determinants of location, mixed support exists for the importance of labour costs and some government-related factors. In particular, the report concluded that while 'government policies directed to FDI are neither necessary nor sufficient to improve the attractiveness of most host countries, ... they can influence the locational decisions of particular MNEs [multinational enterprises] in certain industries' (BIE 1993, p.116).

Preston (1994, p.26), reviewing three large scale international studies on factors affecting firms' location decisions, suggests that:

> ... the most significant factors influencing locational choice are, in rough order of importance:
>
> - the quest to take up a stake in regional markets so as to preserve and/or expand global market share;
> - access to raw materials;
> - access to a low cost skilled workforce;
> - a well-developed local infrastructure;
> - an efficient and honest public sector; and
> - political stability.

Evidence on the impact of corporate taxation on location of FDI is somewhat mixed. Preston (1994, p.26) argues that non-tax factors may be more important to a firm's investment location decision than taxation and notes that:

> The importance of these non-tax factors is perhaps not surprising. In Australia, company taxes represent about 3 to 8 per cent of a business's costs, very much less than the costs of inputs such as labour (25 per cent) and materials (45 per cent).

Warren (1995) notes that many OECD studies suggest that FDI is only marginally influenced by tax differences between regions, However, Warren points out that many of these studies refer to a period when there were barriers to capital mobility, and were undertaken before the 1992 move to a single European market and NAFTA and hence are likely to understate the relative importance of taxation in location decisions.

The Ruding Committee (1992, p.99) reviewed a number of simulation and econometric studies, business surveys and a case study of United States tax reform in 1986. The conclusion was that:

> ... although considerable uncertainty remains regarding the quantitative effects of the corporation tax on FDI, there is substantial evidence of non-negligible tax effects on the international location of business investment.

However, it also noted that foreign direct investment 'usually involves considerations of long-term business strategy, such as maintaining a presence in many countries worldwide, and is therefore less likely to be influenced by tax considerations' when compared with international portfolio capital flows (Ruding Committee, 1992, p.96).

The Ruding Committee undertook its own survey of 965 firms covering all European Community countries as well as Austria, Finland, Iceland, Sweden and Switzerland. Responses to the question concerning how often taxes are a relevant consideration and major factor in location decisions are shown in table 2.2.

Table 2.2 Importance of taxation to investment location

	Always	*Usually*	*Sometimes*	*Never*	*Number of responses*
	%	*%*	*%*	*%*	*No.*
Production plant					
Relevant consideration	43.6	28.2	20.4	7.9	624
Major factor	22.0	25.6	33.7	18.7	555
Sales outlet					
Relevant consideration	30.0	27.9	25.9	16.2	641
Major factor	14.1	23.7	31.9	30.4	562
Coordination centre					
Relevant consideration	46.2	23.7	21.9	8.2	392
Major factor	34.5	22.1	26.7	16.7	348
R&D centre					
Relevant consideration	31.2	27.5	28.1	13.2	349
Major factor	15.3	25.9	33.6	25.2	313
Financial services centre					
Relevant consideration	63.9	21.3	9.6	5.4	447
Major factor	52.6	25.7	12.9	8.8	397

Source: Ruding Committee (1992, p.114).

The Ruding Committee (1992, p.102) also commented that:

> Considering the production plant, for example, 72 per cent of respondents replied that it [taxation] was either always or usually a relevant consideration; 48 per cent replied that it was either always or usually a major factor. This must be regarded as a very high figure and one of the most important results of the survey. It suggests that for roughly half of all such decisions, taxation is a major factor as to the country in which a production plant is located. This result suggests that taxation does have an important distorting effect on location decisions, with the consequent general welfare loss outlined above.

However, it should also be noted that around 52 per cent of respondents stated that taxation was sometimes or never a major factor in production plant location decisions. The degree of importance of taxation in location decision varies considerably by type of investment, with tax being particularly important to the location of financial services centres and relatively less important for sales outlets.

The relative importance of tax and non-tax factors in the investment location decision is likely to vary depending on a number of factors including the stage of the decision-making process, the type of firm, and how similar salient factors are in rival locations. For example, Preston (1994) acknowledges that tax can be important if effective tax rates differ between countries by significant margins. However, Preston (1994, p.28) notes that '... with a company tax rate of 33 per cent [in 1994], and generous development, investment and depreciation allowances, we [Australia] are broadly in touch with business taxes in the region'. Thus Preston views the Australian taxation environment for potential investors as 'broadly neutral', so that investors are likely to focus on Australia's comparative strengths in non-tax factors.

However, Preston and others (see, for example, Warren 1995) caution that entering into a corporate tax 'bidding war' with neighbouring countries, while likely to have an impact on investment location, is unlikely to be profitable for Australia as a whole.

It is probable that tax incentives directed to foreign investors encourage some FDI at the margin. However, they also impose costs on other investors and the community more generally. For example, they may disadvantage competing domestic investors who do not qualify for the tax incentives, and resources may be attracted away from more productive domestic projects. Distortions to investment and resource flows may be accompanied by distortions in the prices of materials and equipment. Eventually, FDI tax incentives may also require compensating increases in other taxes, indirectly affecting investment in other sectors or the welfare of workers and consumers.

When summarising the research in this area, the United Nations Centre on Transnational Corporations (UNCTC 1992, p.29) commented that:

> Several of these studies suggest that GNP or GNP growth rates are not only an important explanatory variable, positively correlated to investment flows, but that market size may be far more important than government incentives as an attraction to investors.

2.4 Implications for government policy

The above discussion suggests that governments should concentrate on improving their country's economic fundamentals such as economic growth, inflation and total factor productivity rather than offering incentives to attract FDI. As Yetton, Davis and Swan (1992, p.72) observe: 'Our task is not to pick winners but rather to create an environment in which (enough) winners pick Australia.'

In recent years the Australian government has introduced many initiatives aimed at increasing the business efficiency by removing regulatory impediments. Reform in areas such as the labour market, infrastructure, capital and foreign exchange markets and taxation has been driven largely by the perceived need to improve Australia's productivity and hence living standards. Improved productivity will be reflected in Australia's increased attractiveness as an investment location.

However, as discussed in chapter 4, there are good reasons to suppose that the effects of these reforms have yet to be fully recognised by prospective overseas investors.

3 Investment promotion and facilitation program

It became clear during the mid-1980s that Australia's efforts to attract FDI were being hampered by outdated and, sometimes unrealistic perceptions. For example, in 1987 a Japanese survey mission reported, among other things:

> Australia's secondary industry has generally been pre-occupied with opportunities in the protected home market … manufacturing accounts for only 20 per cent of exports … realistically a home market of only 16 million consumers is more suited to supporting miniature bonsai industries ... the task that faces the nation today is to reshape and … build sturdy industries which can successfully challenge the international competition … because Australia has [been] a lucky country for such a long time, its management has lacked rigour … comparison with the Japanese norm makes Australia's industrial relations appear wanting in moderation. (Japan Overseas Enterprises Association 1987, pp.16–17)

This was the background that led to the Australian government's June 1987 decision to set up an investment promotion program

In deciding to establish a program, the Government took account of international experience. For example, SRI International-Washington (1984, p.6) concluded in an assessment of investment promotion activities that:

> … carefully developed and properly managed promotion programs can in fact be employed effectively to improve the investment climate, stimulate investor interest and bring to fruition new business activities.

Australian economic growth was trailing that of other Asia Pacific countries, particularly Japan, despite initiatives such as deregulation of financial markets and adoption of more rigorous industry policies.

Policies were implemented that aimed to restructure Australian industry and focus it on international rather than domestic opportunities. Increasing Australia's intake of FDI was seen as an important part in this process of internationalisation.

There has been rapid worldwide growth in FDI since the late 1970s, along with strong international competition for investment by multinational enterprises. International Monetary Fund data shows that total FDI increased from US$40 billion in 1983 to US$194 billion in 1993 — an average annual growth rate of around 25 per cent (Lloyd 1994). The growth in FDI has paralleled and, to an extent, been explained by a marked global change in perceptions of its benefits.

> Prior to this [period from the early 1980s] many economists had emphasised negative aspects of FDI ... such as the effects of foreign monopolies on market sharing and export franchising [and] avoidance of corporate income taxation by transfer pricing ... many

> governments were suspicious of foreign investors and doubted the benefits of foreign investment ... today foreign investment is seen by governments as an important agent of economic growth through the transfer of technology and management skills, improved access to export markets and increased competition. (Lloyd 1994, p.5)

Investment promotion and investment facilitation require ongoing contact with federal regulatory areas such as immigration, taxation and environment, the states, territories and industry. Promotion and facilitation are integrally linked elements of an overall investment attraction strategy.

3.1 Program direction and delivery

When originally formulated, the rationale for the program rested on three premises:

1. Foreign investment was important in improving the competitiveness and internationalisation of Australian manufacturing and service industries. FDI could increase Australian industrial capacity, enhance transfer of technology and managerial know-how and improve access to overseas markets.
2. Australia needed to match intense competition by other countries for FDI, to foster international business collaboration.
3. Australia needed to correct misconceptions about its investment policy, industrial relations climate and cost structures, and to publicise the positive aspects of local investment more widely.

The government decided to implement the program through existing organisations. It gave the prime policy role to the then Department of Industry, Technology and Commerce (DITAC) as part of its industry development functions. DITAC also became responsible for developing suitable promotional material and for overall investment facilitation.

The government gave responsibility for program delivery, particularly for overseas operations, to the Australian Trade Commission (Austrade), then also a portfolio responsibility of the Minister for Industry, Technology and Commerce.[1] Austrade began appointing investment commissioners, preferably with finance, banking or senior corporate management backgrounds, in key overseas financial centres to supplement its existing trade commissioner network.

The investment commissioners were given the task of offshore investment promotion and publicity, principally using DITAC–produced promotional materials. By July 1995, the investment commissioner network had grown to eight posts and five subposts. To maintain consistency, annual workshops are held in Asia, Europe and the United States which bring together investment commissioners, other Austrade personnel, heads of missions, DIST counsellors and local state and territory

[1] To some extent, Austrade had been involved in investment promotion since its inception.

government representatives. State and territory investment promotion agency partners in Australia are also regularly consulted.

Reflecting changing circumstances and experience, the program gradually expanded its functions. After consulting its state and territory partners, in 1991-92 the Pre-Feasibility Consultancy Study Fund was introduced to the program. Two years later a management review recommendation to concentrate resources on a small number of industry sectors was implemented. The recommendation included targeting companies with interests in Australia and the Asia Pacific region, with a view to attracting their regional headquarters to Australia. The program’s scope was later further extended to investment servicing — major project facilitation — formerly a responsibility of the Parliamentary Secretary to the Prime Minister.

Ministerial responsibility has changed several times since the program’s inception. In July 1993 the program was transferred to the Treasurer’s portfolio, where it was brought under the aegis of the newly-created National Investment Council. The Special Minister of State took ministerial responsibility, most particularly for major project facilitation.

Following a ministerial rearrangement in March 1994, the IPFP and National Investment Council secretariat returned to the Department of Industry, Technology and Regional Development, later renamed Department of Industry, Science and Technology (DIST). The portfolio responsibility for Austrade was transferred to the Minister for Trade on 1 November 1991.

The government initially provided funding for three years — from 1987-88 to 1989-90. It then provided funding for a further two years. Following an internal management review in 1991-92, the program was extended to June 1995, with further extension to be subject to an external review to be conducted in 1994-95.

Because of the program’s move to Treasury and then back to the Industry portfolio (both in 1993-94), together with the substantial changes to the program resulting from *Working Nation* in 1994, the external review was postponed and an additional year’s funding agreed to. Extension beyond 1995-96 was made subject to an external review in that year. Results of the review are to be considered in the context of the 1996-97 budget.

Program funding was set at A$2 million a year for the first two years, 1987-88 and 1988-89. Funding has since gradually increased as operations — particularly the number of overseas offices — have expanded. The program’s allocation was A$9.3 million in 1994-95, bringing total program funding to A$45 million (table 3.1).

Table 3.1 IPFP funding, 1987-88 to 1994-95

Year	*Program funding A$m*
1987-88	2.0
1988-89	2.0
1989-90	5.7
1990-91	6.2
1991-92	6.2
1992-93	6.4
1993-94	7.2
1994-95	9.3
Total	**45.0**

Source: Department of Industry, Science and Technology, September 1995.

3.2 The 1991-92 program management review

In 1991-92, the program was reviewed by an internal management team from DITAC, the BIE and Austrade, with a state government representative. The review aimed to reorientate the program's direction, scope and operations, where necessary, to take account of experience over its first four years.

The review team consulted extensively with state and territory program partners and sought submissions from major trade and industry associations. It identified a number of shortcomings including:

- unclear program goals;
- trying to do too much with limited resources;
- not working closely enough with the states and territories and the private sector;
- deficient program support services in a number of areas;
- weak management information and performance monitoring systems; and
- difficulties with program management because it was divided across two organisations.

The team made 38 specific recommendations covering objectives, promotional activities, targeting, matchmaking, coordination with the states, information systems and performance monitoring and administrative structure. The Minister for Industry, Technology and Commerce broadly endorsed the recommendations. In essence, the new objectives were to:

- convince firms to locate in Australia;
- facilitate location by providing the necessary support services; and
- develop a team approach with the states and territories.

The review team also concluded that the program needed to:

- adopt best international practice in investment promotion;
- target industries, countries and firms more specifically;
- retain overseas investment specialists;
- strengthen support services in Australia and develop a better research and analytical capability;
- concentrate its efforts on attracting investment to Australia and discontinue outward investment promotion;
- put more emphasis on performance measures and assessment;
- revise the roles of DITAC and Austrade; and
- work more closely with the states and territories.

Most review recommendations have been implemented, as discussed in the following sections.

3.3 Program structure

The program, an element of Commonwealth, state and territory industry development policies, is a vehicle for attracting FDI into the manufacturing and services sectors. It aims to facilitate industry growth, employment and exports.

The states' and territories' interest in attracting FDI substantially predates the Commonwealth's formal involvement. Although several states still maintain quite extensive investment links overseas, they are also full partners with the Commonwealth in the IPFP. In addition to ongoing contacts between DIST, Austrade and state and territory industry departments, the IPFP's policies and activities are coordinated by regular (generally twice a year) Commonwealth–state–territory officers' meetings at senior executive level.

3.4 Program strategy

Initially, the program set out to develop strategies based on targeting:

- countries with the capacity to invest abroad or those with a history of, or potential for, investment activities that complement Australia's resource and skill bases; and
- internationally competitive Australian manufacturing and service industries with opportunities for overseas investors.

3.4.1 Countries

IPFP administrators decide where to place overseas posts after considering both a country's historical importance as an FDI source and its perceived potential. Posts and subposts were opened in the United States, Japan and Germany in mid–1988; in France and the Republic of Korea in 1990; in Beijing, Shanghai and Taipei in 1991; and in Italy and the United Kingdom in 1992. More recently, posts have been opened in Hong Kong (1993) and Singapore (1995).

The locations of IPFP posts are regularly re-evaluated to take account of results achieved, local policy changes and any problems arising. As a result, for example, Austrade closed the Seoul post in 1992-93 because the Republic of Korea's policies did not then favour outward FDI, and diverted the resources to open a new post in Hong Kong.

More recently, the IPFP closed its investment promotion functions in Copenhagen, Stockholm and the Hague because they were not considered cost effective, partly because of the use of part-time local consultants who lacked an in-depth knowledge of Australia.

There has also been some relocation of IPFP posts in the United States, including the transfer of the former Los Angeles post to San Jose in California's Silicon Valley to facilitate ongoing information industry investment opportunities. As foreshadowed in the Prime Minister's *Working Nation* statement in May 1994, the IPFP recently opened a Chicago post to service the highly industrialised Mid-West region. The investment commissioner network is shown in table 3.2.

Table 3.2 IPFP investment commissioner network, 1992-93 to 1994-95

	Opened	*Staffing*	*Post expenditure 1992-93 to 1994-95*
		No.	*A$m*
New York[a]	June 1988	7.5	3.18
Frankfurt	June 1988	3.0	2.15
Tokyo	November 1988	3.0	2.15
Paris	April 1990	3.0	1.72
Milan	January 1992	2.0	0.60
London	November 1992	2.5	0.62
Hong Kong[b]	January 1993	6.0	1.31
Singapore	January 1995	3.0	0.34

a Responsible for San Jose and Chicago IPFP staff. **b** Also responsible for Beijing, Shanghai and Taipei IPFP staff.
Source: Austrade, as at September 1995.

A feature of the posts' network since the 1992 review has been the substantially increased focus on Asia. This reflects the government's policy of increasing Australia's linkages and involvement with Asia, and the potential for a substantial increase in Asian investment in Australia. Funds allocated to the network's three Asian posts amounted to A$3.8 million, almost 20 per cent more than for the United States and only 25 per cent less than for the four posts in Europe, traditionally Australia's principal source of FDI.

3.4.2 Sectors

The 1991-92 review recommended, among other things, sectoral targeting to make optimal use of program resources and adopting as sectoral-selection criteria:

- competitive strength;
- compatibility with government policy;
- availability of foreign investment opportunities in Australia in the proposed industry; and
- the existence of a significant information gap about the industry abroad.

The review recommended targeting a maximum of five industry sectors, in addition to projects of national economic significance. In consultation with its state and territory partners, the program developed a list of target sectors based on the then industry policy priorities and the criteria recommended by the review.

It was agreed that although the IPFP would service investment inquiries from any sector, it would primarily focus promotional work on the identified sectors. It then allocated staff to cover the various target sectors and develop specific investment opportunities (using Australian investment briefs, see section 3.4.3). The initial five sectoral targets were:

- food processing;
- information technologies and telecommunications;
- minerals and chemicals processing;
- textiles, fibres and hides processing; and
- waste and environment management.

The program also selected advanced business services — later termed regional headquarters (RHQ) — as being of national economic significance, to capitalise on Australia's advantages as a site for the administrative functions of multinational enterprises operating in the Asia Pacific region.

Experience indicated the initial target sectors were too broad and the specific target strategies were unduly rigid and offered insufficient direction. Late in 1993, Commonwealth, state and territory program officials met to review the sectoral approach. At this meeting, officials broadly supported the view that resources would be better used for targeted marketing campaigns for only two or three priority sectors over two to three years, in addition to the ongoing regional headquarters campaign.

The priority sectors should focus on areas where Australia has competitive strengths and be of interest to overseas investors.

The sectoral targets remain fluid. However, food processing (dairy products, Asian foods), information technology and telecommunications (software development, data processing operations), and minerals processing are sectors where the program still has a particular focus.

3.4.3 Australian investment briefs

Australian investment briefs (AIBs) are used as focused marketing tools by the IPFP and resemble miniature prospectuses. Typically, the vendors of a potential investment opportunity or their financial advisers produce and pay for the basic corporate documents (such as a detailed business plan). Austrade then adapts those documents produced by the private sector to meet the information requirements of prospective overseas investors and highlight the commercial fit of the Australian project with the business of such investors. These AIBs are thus more readily usable by the investment commissioner network. The briefs are then marketed by the commissioners to selected customers. Access to detailed documentation is otherwise restricted to inquirers who have signed a confidentiality agreement.

The development of an AIB takes place in two stages. The first is preparation of the document itself. The initiative for an AIB usually comes from Austrade when it becomes aware of an Australian company seeking an overseas partner. It can also arise from an investment commissioner’s request for assistance in finding a particular type of Australian investment opportunity for an overseas investor. Austrade then finalises the AIB by working with the organisation preparing the prospectus, business plan or other basic corporate document to adapt the document’s language and layout to the needs of the international marketplace.

Austrade subjects potential AIBs to rigorous quality control checks. It will not accept poorly developed documentation, or market briefs if their soundness is in question. Austrade assesses a firm’s capability, credibility, competitive advantage and commitment before agreeing to market that firm’s proposal through the AIB process. Austrade does not charge for preparing an AIB. Indeed, in some cases, the IPFP supports the cost of an AIB through Feasibility Study Fund support.

3.5 Feasibility consultancy study fund

In July 1990 the Commonwealth established the Pre-Feasibility Consultancy Study Fund to assist consultancy study proposals advanced by the states and territories. The fund was initially aimed at studies of relatively large-scale projects (capital expenditures of A$30 million and above).

Funding conditions specified that if the proponent could not, or would not, develop a project within a specified period following completion of a consultancy, ownership of the study would pass to the Commonwealth and state or territory governments for marketing through the IPP network. Funding under the former guidelines ceased on 1 July 1993.

Responding to an ongoing demand for Commonwealth feasibility grants, the program partners developed revised (and more rigorous) guidelines later in 1993. (In view of the altered guidelines, the fund became known as the Feasibility Consultancy Study Fund.) These guidelines, subsequently endorsed by the National Investment Council, have since been further revised. The fund's overall objectives have, however, consistently included:

- encouraging investment in new projects in value-adding, advanced manufacturing or internationally traded services and in Australia's export oriented and import replacement industries;
- encouraging state and territory governments to focus on potential major investment opportunities;
- linking the Commonwealth's investment promotion and facilitation activities more closely with those of state and territory governments; and
- encouraging prospective Australian and overseas investors to focus on Australian business opportunities and providing them with an informed opportunity to compare the benefits of investing in Australia with those in other countries.

In May 1994 the Prime Minister announced in his *Working Nation* statement that the fund's coverage had been extended to cover regional headquarters proposals.

Principal features of the current (September 1995) guidelines include the general conditions that:

- new proposals involving an initial capital investment of less than A$10 million are generally ineligible;
- the maximum Commonwealth contribution for any one study is A$50 000;
- state or territory governments must at least match the Commonwealth government contribution for any study; and
- private sector proponents should generally contribute cash funding at least matching the combined contribution by the two governments.

The standard funding agreements continue to specify that ownership of a study passes to the Commonwealth and its state or territory funding partner if the private sector proponent does not commit to a project within a prespecified, mutually agreed period. The IPFP also requires that a marketing strategy for the study be developed at an early stage and that the program play a marketing role in any approved proposal.

By July 1995 the Commonwealth government had cofunded 25 consultancy studies involving Commonwealth expenditures of around A$1.2 million. For the period 1992-93 to 1994-95, Commonwealth annual expenditure on feasibility funding ranged between A$229 000 and A$270 000.

3.6 Regional headquarters initiative

The regional headquarters for a multinational enterprise is:

> ... an entity that provides support services to its associated companies located in other countries in the region and acts as an intermediary between the associated companies and the parent company located elsewhere, for example, in Europe or North America. In the Australian context an RHQ is an Australian company which is established to perform the above mentioned functions for associated companies located in our region. (Taxation Laws Amendment Bill [No. 3] 1994, explanatory memorandum)

Regional headquarters' services include data and telecommunication hubs for regional communication networks, finance, treasury and training operations and research and development activities.

3.6.1 Regional headquarters strategy

There are two main strategies to the IPFP's regional headquarters initiative: a marketing campaign and facilitating access to incentives available to companies establishing regional headquarters in Australia.

Marketing campaign

Development of the regional headquarters marketing campaign involved extensive consultation with state and territory investment agencies. Since the campaign began in September 1993, more than 60 companies have established regional headquarters or major regional functions in Australia. The campaign won the 'Best Campaign Award for Excellence 1994' at the fifth annual meeting of investment promotion agencies in Amsterdam in October 1994.

The campaign had four main elements:

- developing a targeted list of international companies;
- developing appropriate marketing materials, with comparative data on Australia and regional competitors;
- contacting the subsidiaries of those companies in Australia and, where appropriate, head offices; and
- providing companies wishing to establish regional headquarters with coordinated federal, state and territory government facilitation.

The campaign began with DIST, Austrade and Telstra jointly preparing a list of some 700 foreign owned, Australian resident companies with interests in other areas of the Asia Pacific. DIST and Austrade took operational responsibility for contacting the campaign's initial target companies, according to each agency's previous relationships with those companies. State and territory investment agencies were fully involved in the initiative.

Cooperation with private sector groups includes group meetings with chambers of commerce and ministerial addresses to the French and German Chambers of Commerce in Australia, sponsored features in international business magazines and inclusion of similar material in the American Chamber of Commerce's US–Australia trade directory. DIST supported Telstra and the Australian Coalition of Service Industries in their development of the regional headquarters Leaders Network, which comprises some of Australia's most senior business executives — to encourage overseas corporations to establish regional headquarters in Australia.

Where appropriate, the campaign calls on major resources — Ministers, the Special Trade Envoy, the Special Investment Representatives (former Ministers with ambassadorial status) and the rest of Austrade — to create highly selective, top-level contact opportunities with companies that may establish regional headquarters in Australia. During 1994 and 1995 the Industry Minister and the two special envoys undertook several overseas investment missions as part of the marketing campaign.

Facilitation

Since launching the regional headquarters initiative in September 1993, the Commonwealth government has introduced a number of incentives to increase Australia's attractiveness to companies wishing to relocate or establish regional headquarters. The incentives fall into two broad categories: taxation concessions and streamlined immigration processing. Companies wishing to establish regional headquarters in Australia may use the IPFP to facilitate their access to these incentives.

The taxation concessions, which were announced in the *Working Nation* statement, are sales tax exemptions on imported used computer and computer related equipment, tax deductions on some regional headquarters set-up costs and an exemption from dividend withholding tax for certain foreign source dividends passed through a resident company to non-resident shareholders.

The sales tax exemptions and deductions for set-up costs are generally available to firms setting up regional headquarters which meet the eligibility criteria. Firms need not be involved with the IPFP to be eligible. To the end of August 1995, only eight overseas companies have availed themselves of the wholesale sales tax exemption. This compares with more than 60 regional headquarters which have established in Australia by that date since the launch of the regional headquarters campaign in 1993.

The dividend withholding tax exemption is available to all qualifying foreign source dividends, not just those of regional headquarters.

Any firm establishing regional headquarters in Australia also has access to streamlined immigration procedures once it has signed a regional headquarters agreement with DIST and the Department of Immigration and Ethnic Affairs.

Complementing Commonwealth government measures, two states (Queensland and New South Wales) have legislated state tax exemptions for regional headquarters. In September 1995, however, the New South Wales government announced its intention to replace state tax exemptions for regional headquarters with a one-off tax rebate of up to A$300 000. Other states and territories do not appear to have formal definitions of regional headquarters, and may negotiate tax concessions on a case-by-case basis.

3.7 Activities

The IPFP's work covers a range of domestic and overseas activities aimed at promoting and facilitating FDI in the manufacturing and service (including regional headquarters) sectors. Program activities may be classified under three areas: information provision, matchmaking and facilitation.

3.7.1 Information provision

The IPFP produces and distributes a range of generic and specific sectoral literature and marketing material. This includes the publications *Australia: Your business location in Asia*, the centrepiece of the regional headquarters marketing campaign, and the recently published 'flagship' booklet, *Australia: Your strategic investment location*. The latter publication is aimed at companies with no, or limited, operations in Australia, looking at a new manufacturing or service operation in the Asia Pacific region and has been translated and published in a number of languages — Italian, French, German, Japanese and Chinese.

Recent titles produced or under consideration include booklets on the information technology and telecommunications industry, financial services, waste and environment management, industrial research and development, forest products, processed foods and beverages, and a compendium of Australian industry and economic data.

The IPFP's investment commissioners provide IPFP literature free of charge to companies they have identified as potential investors in Australia. Literature is also distributed through Australian diplomatic missions and at major overseas trade shows, business conferences and seminars.

The IPFP also responds to many detailed inquiries from potential investors. Most commonly, these inquiries are directed through the investment commissioner network.

In some cases, the commissioners are able to respond using existing databases. However, often detailed research on specific industry aspects and information from sources such as the Australian Customs Service, Australian Taxation Office, Treasury, and state governments are required.

3.7.2 Matchmaking: formation of strategic alliances

The IPFP's major aim is encouraging a flow of productive new foreign investment into Australia's manufacturing and service industries. Investment commissioners are responsible for marketing prospective Australian opportunities to overseas firms in their regions. Much of the IPFP's work in Australia involves locating interested and suitable investment partners for overseas firms. As already discussed, to assist in preparing well focused investment information, the IPFP provides some financial support for feasibility consultancy studies, to match contributions by state or territory investment agencies.

3.7.3 Facilitation

Facilitation, or investment servicing, usually does not begin until a firm has made an in-principle decision to invest in Australia. Facilitation generally involves assisting the foreign investor with government approval processes. However, after the project is operational, the firm may continue to use the IPFP's facilitation services for assistance with other matters — for example, a major expansion of the regional headquarters. This could include arranging meetings with other Commonwealth agencies.

3.8 Special investment representative

The Prime Minister announced in the *Working Nation* statement that the government would appoint a special investment representative. The tasks of the new function would include heading major overseas investment missions and attracting regional headquarters, advising the Minister and the National Investment Council on investment promotion matters and acting as a high level negotiator on particular investment projects.

Mr John Dawkins (a Commonwealth minister from 1983 to 1993 and the Treasurer from December 1991 to December 1993) was the initial appointee. Since his appointment, Mr Dawkins has completed investment missions to the United States, the Netherlands, Turkey, Switzerland, Japan, Singapore and Malaysia. The Special Investment Representative's has three main areas of involvement in the program:

- attending major overseas business fora;

- briefing high level, typically to chief executive, officers of major international companies; and
- holding discussions with companies when a locational decision is imminent.

3.9 Relationship with other government programs

The IPFP is one of a number of instruments of the government's industry development policies. Program staff liaise with staff involved in other closely related government authorities, such as Market Australia and the Foreign Investment Review Board's secretariat in the Treasury. The IPFP is also involved in related issues such as advising on business migration procedures and Market Australia's promotional material — which aims to improve international perceptions of Australia as a source of high quality manufactured goods and services.

Foreign investors may also qualify for generally available industry assistance — such as research and development tax concessions, tariff concessions and inclusion in the Partnerships for Development Program (applicable to information technology firms).

The program is also developing close links with the Department of Primary Industry and Energy (especially in plantations and wood products) and the Department of Housing and Regional Development (in promoting investment in rural Australia).

3.10 Relationship with policy making process

The IPFP operates under the guidance of the National Investment Council (Treasury press release No. 54 of 1993). The council, formed in mid-1993, is the Australian government's key private sector source of investment advice. It is chaired by the Minister for Industry, Science and Technology and the Minister for Trade is also a member. Most members are drawn from the private sector.

The council's principal objectives are promoting and facilitating domestic and foreign investment and advising on impediments to investment growth. The council's work program includes:

- expanding the regional headquarters campaign to encompass attracting multinational companies to carry out research and development functions in Australia;
- studying capital availability for growth-oriented small to medium enterprises, with a special emphasis on the funding of innovation;
- monitoring the impact of regulatory and economic environments on the investment decisions of superannuation funds; and

- monitoring the investment outlook and current issues of importance to investment.

The council has an important role in raising Australia’s profile as a desirable and competitive location for long term strategic investment. Council members are increasingly involved in supporting the IPFP in overseas and domestic investment promotion.

The IPFP reports to the National Board of Industry, Trade and Investment. The formation of the board, comprising the Minister for Industry, Science and Technology and the Minister for Trade, was a *Working Nation* initiative. The board is charged with coordinating the development of an agreed strategy for trade and investment promotion, export facilitation and industry development. In addition to developing a joint overall strategy, the board develops and pursues strategies to bring together trade, investment and industry development issues.

The program also advises the Industry, Technology and Regional Development Ministerial Council on significant investment promotion and facilitation issues. The council (the Commonwealth, state, territory and New Zealand ministers directly responsible for industry, technology, regional development and small business policy issues), is chaired by the Commonwealth and meets at least once a year. It is supported by a standing committee and *ad hoc* working parties.

IPFP staff have day-to-day contact with a wide range of potential and actual investors overseas and with domestic and internationally based investment intermediaries. This contact ensures that investment commissioners and others quickly become aware of government policies that could deter desirable foreign investment in Australia. Information on developing problems can feed into policy making processes in areas such as corporate and personal taxation and immigration procedures. Changes flowing from recognition of such problems include:

- streamlining the immigration process for regional headquarters expatriate employees;
- exempting certain second-hand equipment imported by a company to establish regional headquarters in Australia from wholesale sales tax;
- exempting certain foreign source dividends passed through a resident company to a non-resident shareholder from dividend withholding tax; and
- allowing regional headquarters to claim certain business expenses incurred as a direct consequence of relocating from overseas as allowable deductions for taxation purposes.

More broadly, the IPFP is a source of information on investment issues for the industry minister, the National Board of Industry, Trade and Investment and the National Investment Council, and program staff liaise closely with DIST’s Finance and Investment Policy Branch.

3.11 Major project facilitation

The major project facilitation (MPF) function was an initiative announced in the Government's February 1992 *One Nation* statement. This function aims to minimise the compliance costs of commercially viable major projects by guiding them through government approval processes — making the process of investing in major Australian projects easier, faster and more efficient for the companies concerned.

As with the regional headquarters initiative, major project facilitation is a subprogram run by the IPFP. Prior to its inclusion in the IPFP in 1993, the MPF function operated separately in the Department of the Prime Minister and Cabinet.

Projects seeking facilitation must meet three broad criteria:

- total capital expenditure of A$50 million or more;
- demonstrated reasonable commercial viability; and
- Commonwealth government approval (such as foreign investment approval) to allow the project to progress.

Facilitating major projects has been a responsibility of the Minister for Industry, Science and Technology since March 1994, following a rearrangement of ministerial responsibilities (see section 3.1). Projects designated by the Minister as satisfying the criteria may qualify for facilitation. By September 1995, projects worth almost A$7 billion had been, or were in the process of being, facilitated. The projects involved and their expected values, are shown in table 3.3.

Table 3.3 Estimated capital cost of major projects facilitated or being facilitated by the IPFP as at September 1995

	Estimated capital cost A$m
Fully approved projects in production	
McArthur River Mining (lead and zinc)	290
Zapopan (Mt Todd gold mine)	100
Coflexip (underwater oil and gas pipe)	55
Fully approved projects under construction	
ICI Botany (pipeline)	300
Hokushin (fibreboard plant)	90
Projects being facilitated	
BHP Petroleum (East coast gas pipeline)	450
Speedrail (fast train)	2400
Queensland Bagasse (pulp mill)	200
Mineralogy (direct reduced iron)	1700
Rhone Poulenc (rare earths)	50
AUSI Iron	1200
Total value of projects being facilitated	**6835**

Note: Project capital costs have been rounded.
Source: Department of Industry, Science and Technology estimates.

Major projects facilitation is not solely directed to FDI, it encompasses Australian and foreign firms. Major project status is triggered for projects with a total capital expenditure of over A$50 million. The rationale for this is that the performance of major projects in getting up and running can have a powerful demonstration effect — for good or ill (Industry Commission 1991). Unwarranted or costly delays can have a negative effect on investors. The higher the profile of a project the more likely potential investors will hear of it (and the bigger it is, usually the higher the profile). Facilitating major projects thus fits in with ‘promoting’ investment by creating positive perceptions as people hear of the smooth establishment of high profile projects in Australia.

As the states and territories are responsible for most of the approval processes associated with investment projects, IPFP staff liaise closely with those governments. Their function in facilitating major projects includes:

- promptly providing information to companies on what they have to do to clear approval processes and on specific government policies, programs or entitlements that might benefit a project; and
- coordinating all government processes, particularly between the Commonwealth and the states or territories.

4 Appropriateness

One reason for establishing the program was the belief that potential overseas investors lacked an awareness of Australia as an attractive investment location or hold negative perceptions about it. Another was that this represents a market failure, causing investment in Australia to be less than desirable from Australia's perspective.

Accordingly, this evaluation required the BIE to review the appropriateness of the IPFP against the economic rationale of correcting market failure (the 'market' being that for the provision of relevant information on Australia's investment environment and facilitation services to potential overseas investors in Australia).

The investment promotion and facilitation activities of the IPFP are usually provided as a package of services broadly described as 'promotion'. BIE discussions with actual and potential investors confirmed that they view such services as a single package. However, for the purposes of this chapter it will often be convenient to treat them individually because of the different issues they raise.

In this chapter, evidence about the lack of awareness and poor perceptions of Australia's economic environment among potential overseas investors is presented in section 4.1. Why these deficiencies may constitute evidence of market failure in the supply of promotional activity is discussed in section 4.2. In section 4.3, the appropriateness of the program as a vehicle for correcting any market failures is considered.

4.1 Is promotion necessary?

Issues in relating to promotion of investment opportunities range from whether potential overseas investors are generally aware of Australia as a location for FDI to whether they have specific knowledge about macroeconomic conditions, fiscal and structural policy, industrial relations, access to world markets, and a host of other factors affecting their foreign investment decisions.

4.1.1 Overseas awareness of Australia

Various studies suggest that among overseas investors there is a persistent general lack of awareness of Australia as an attractive location for FDI — see, for example, studies for the governments of South Australia (Peter Prowse and Associates 1992) and Western Australia (Peter Prowse and Associates 1993) and research by Market Australia (1995).

The Market Australia research was undertaken in seven East Asian markets during 1994 and involved sampling the views of business people and opinion leaders. That study found the majority of respondents in all markets and most business sectors were '... unfamiliar with Australia's capabilities or potential as a supplier of sophisticated products and services' (p.7) and did not see Australia as a potential supplier of high value-added products. These findings generally support the results of other studies. The Nomura Research Institute (1994) identified major gaps in the awareness of Japanese firms about their Australian counterparts. It attributed this in part to the lack of private industry promotion of Australia's strengths.

The general lack of awareness among potential investors was confirmed by Austrade's investment commissioners, and by Austrade regional executive general managers interviewed by the BIE. All reported that, among executives in the companies they target, the level of awareness of the attributes of Australia as an investment location was generally low. Additionally, almost all submissions from state governments stated that foreign investors are not widely aware of the investment potential of Australia and of individual states.

Discussions by BIE staff with current and foreign potential investors involved with the IPFP confirmed that, prior to their involvement, many of those investors were not familiar with Australia's business environment. These investors regarded the IPFP as a valuable source of both initial and more detailed information, which raised significantly their awareness of Australia's potential as an investment location. The Japanese company Hokushin, for example, noted that its investment in a medium density fibreboard plant in Tasmania was a direct result of that opportunity being brought to its attention by the IPFP. This was despite Hokushin having close links with companies located in Australia. Similarly, a Japanese fish marketing company was introduced to a commercially attractive joint venture in South Australia that they were unaware of prior to the promotional efforts of the IPFP.

Some investment commissioners also noted that references to Australia in the overseas press are infrequent and that the limited media coverage and advertising campaigns for Australian products or tourism generally reinforce existing stereotypes. Seldom do these references provide new information that could improve awareness of Australia's scientific and industry capabilities.

4.1.2 Overseas perceptions

Perceptions about Australia

The press release first announcing the Investment Promotion Program noted there had long been poor and inaccurate perceptions of Australia's investment climate which impeded FDI (Joint Media Statement 76/87). Since then, a range of studies have indicated that widespread and ongoing negative perceptions remain. Research undertaken for Broadcom Australia (1988) in the United States in 1988, for example, indicated that economic perceptions of Australia in general were largely inaccurate at the time. The Market Australia study and the two studies by Peter Prowse and Associates cited above, the findings by McKinsey and the Australian Manufacturing Council (1993) and a survey by the Australian Chamber of Manufacturers (1994) all confirm that there are still incorrect perceptions about Australia's business environment.

BIE interviews with investment commissioners and some Austrade regional general managers also confirmed that misperceptions among potential investors abound. Some examples of comments from Singapore, Japan and North America are provided in box 4.1.

Box 4.1 Perceptions of Australia: views of investment commissioners

The Investment Commissioner in **Singapore** found that Singapore business people regard Australia as having high taxes, low investment returns, bad industrial relations, high wages, low labour productivity and a relatively low standard of living. He noted that the press in Singapore tends to report negative news about Australia, especially negative remarks about Australia by local politicians. He also suggested that senior civil servants, academics and business people who had studied in Australia under the Colombo Plan retain a negative (and very dated) impression from their experience.

Although the **Japanese** people have positive attitudes towards and trust Australians, they generally still think of Australia as a 'farm, quarry and a great tourist destination', according to the Investment Commissioner in Tokyo. She expressed the view that most Japanese firms, especially small and medium enterprises, would not usually consider the merits of investing in Australia.

The Investment Commissioner in **North America** stated that Australia was simply 'not on the map' for many American executives, except as a possible tourist destination. The commissioner said that many senior executives of large American corporations worked in Australia earlier in their careers, and retain outdated information about the region, while presenting themselves as knowledgeable about doing business in Australia. As an example, he cited a case where, in 1994, Australia was not short-listed as one of four contenders for an investment of at least A$1 billion because a member of the committee refused to believe data on Australia's competitive wage rates, basing his opinion on his experience in Singapore ten years earlier.

Submissions to the BIE also suggested that outdated perceptions about Australia were common among potential investors. In particular, many hold views that fail to take account of economic and social changes in Australia over the past five to ten years.

The BIE conducted its own survey of executives in 91 firms in Japan, the United Kingdom and the United States to measure the accuracy of perceptions about Australia's business environment (see appendix D). The results of that survey suggest significant misperceptions exist among overseas firms — perceptions that adversely affect investment in Australia.

Responses to questions on Australia's levels of industrial disputation and inflation, for example, were particularly informative. Low levels for these two indicators are generally regarded as being conducive to new investment. In Australia's case, the perceptions of overseas firms were skewed towards higher levels of strike activity and inflation than were the case.

Australian strike activity has fallen by about 65 per cent over the past five years. However, more than half the respondents in Japan and the United Kingdom did not think that strike activity in Australia had declined during that period (table 4.1).

Respondents in the United States had an even more pessimistic view of recent trends in Australian industrial disputes. These responses tend to confirm anecdotal evidence of widely held perceptions that Australia still has the same high level of strike activity as it did five years ago.

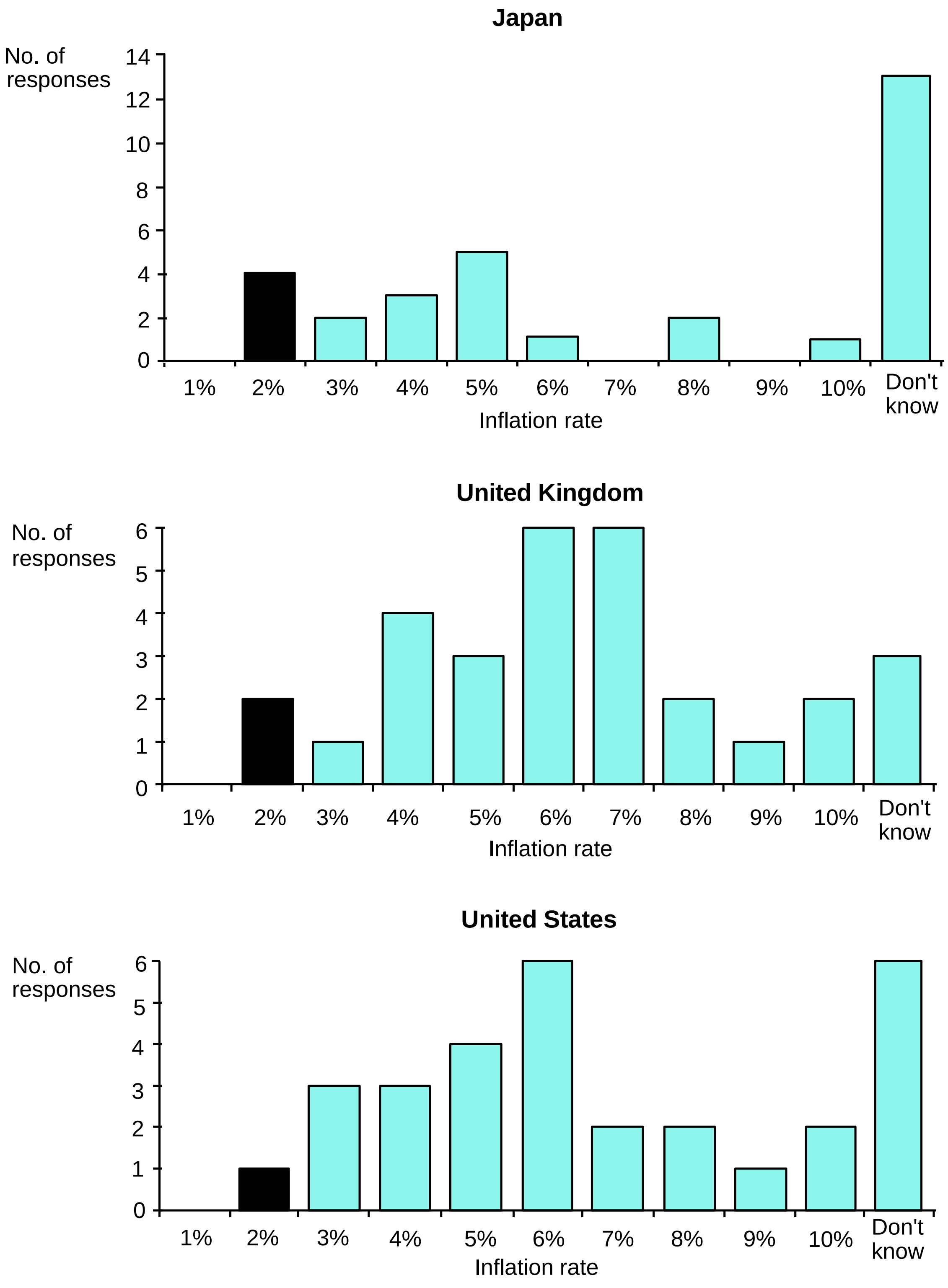
Table 4.1 Overseas perceptions about Australian industrial disputes over the period 1990 to 1994

	Japan		*United Kingdom*		*United States*	
Response	*No.*	*%*	*No.*	*%*	*No.*	*%*
Fallen (correct)	13	42	13	43	6	20
About the same	7	23	10	33	13	43
Increased	1	3	3	10	2	7
Do not know	10	32	4	13	9	30
Total	**31**	**100**	**30**	**100**	**30**	**100**

Source: BIE perceptions survey.

Responses from all firms indicated serious negative perceptions about Australia's inflation rate over the past three years. As figure 4.1 shows, there was scant appreciation of the very low rate of headline inflation in Australia during the period 1993–95 (an average of 2 per cent). Perceptions of respondents in the United Kingdom and United States were especially poor and almost half of the Japanese respondents claimed to not know.

Figure 4.1 Overseas perceptions of the average Australian inflation rate over the period 1993–95



Note: The average headline rate of inflation in Australia was 2 per cent over the period 1993–95.
Source: BIE perceptions survey.

Perceptions about Australia relative to other countries

During the RHQ campaign, IPFP officers from Austrade and DIST contacted executives in the Australian subsidiaries of some 700 foreign multinational companies to promote Australia as a location for their companies' regional headquarters. BIE discussions with IPFP staff indicate that most of those executives, who live in Australia, were unaware of Australia's cost-competitiveness as location for regional headquarters compared with Hong Kong and Singapore. This was particularly so in terms of office rentals, skilled labour, telecommunications and expatriate packages.

BIE discussions with investment commissioners and with state and territory promotion agencies also indicated potential investors often had poor perceptions of Australia's business costs relative to those of other countries likely to compete for investment projects.

The BIE survey of perceptions examined this issue by asking the executives of firms in Japan, the United Kingdom and the United States about their views of Australia's business costs compared with those of Singapore. Singapore was chosen as it is a major regional competitor for Australia in attracting FDI. Comparisons were made for the costs of labour, electricity, telephone, office rents and land. As Australia has lower costs than Singapore in each of these categories, incorrect responses or ignorance may act to Australia's disadvantage in attracting FDI.

Although the perceptions about cost relativities varied by cost category and country, the overall perception of respondents is that Australia is considered a relatively high cost country (table 4.2). This was most noticeable in the perceptions of the respondents from all three countries about relative Australian labour and telephone costs. United States respondents appeared to be particularly ill-informed about all the relative costs surveyed.

Table 4.2 Overseas perceptions about Australian business costs relative to Singapore costs

	Proportion of correct responses with respect to costs of					
	Labour	*Electricity*	*International telephone*	*Office rents*	*Land*	*Number of responses*
	%	*%*	*%*	*%*	*%*	*No.*
Japan	39	71	19	77	71	31
United Kingdom	23	37	23	63	60	30
United States	23	33	17	40	43	30

Source: BIE perceptions survey.

4.2 Market for supplying promotion

Viewed from the perspective of Australia's national interest, expenditure or effort on promoting Australia as an FDI destination should reach the level at which the additional benefit of further promotion equals the additional cost of that promotion (provided there is an overall net benefit). The relevant benefits and costs are not merely private; they include those to society at large. Market failure exists if, for any reason, there is more or less than this level of promotion.

The lack of awareness of Australia as an investment location or misperceptions about Australia's economic environment are often claimed to represent market failures, justifying government intervention. Proponents of the program argued that private sector firms and organisations in Australia and overseas are not providing adequate information, or that the information-gathering operations of potential overseas investors are inefficient.

The existence of commercial errors, however, need not constitute evidence of market failure in the supply of promotional effort or the search activities of firms. Business perceptions may be incorrect or incomplete, but this need not justify government intervention in the provision of promotion services. For example, firms will tend to collect and process information on investment locations only to the point where the marginal benefits to them of doing so equal the marginal costs involved. Firms that do not acquire and process information efficiently risk becoming insolvent or letting their competitors exploit profitable investment opportunities instead.

Nevertheless, there are plausible reasons why the lack of awareness and the misperceptions already noted may be the result of market failure in promoting Australia to potential investors. These reasons are now examined.

4.2.1 Inadequate private incentives for promotion

The fact that private firms are not filling the information gaps about Australia for potential overseas investors may mean that such firms lack incentives to do so. Many overseas investors assert that this is so (box 4.2).

This may reflect the existence of benefits from promotion that cannot be captured by either the private facilitator or information provider, or by the overseas investor. Why this may occur is now discussed.

Promotion as a public good

Private firms may face limited incentives to promote Australia as a general investment destination where it is technically difficult to recover their costs from investors who act in response to it. Moreover, the use of generic information to promote Australia by one business does not affect its availability to any other business. These qualities of generic promotion endow it with the properties of a 'public good'. To the extent that promotion is a public good, the private sector is likely to undersupply 'promotion'.

Box 4.2 Some private sector views on incentives for promotion

Many of the current and potential investors interviewed by the BIE expressed the view that the private sector will not supply information on investment in Australia, at a general or focused level, because it does not have an incentive to do so. Conversely, the Australian government was seen to have a responsibility to protect its long term interests and to promote Australia in competition with the other countries wishing to attract investment.

> Who is going to advertise Australia if the government doesn't?
>
> US Investment Facilitator

> One cannot rely on the interests of the private sector to necessarily accord with promotion of Australia … there is a need to have the government in control of the promotion exercise …
>
> WyWy Pac-Am Food Concepts Group, Singapore

> We do not usually go out and hunt for investment business for Australia … banks and trading houses are not in the business of providing [investment] information nor in the business of facilitation …
>
> Australian bank, Tokyo

> Awareness raising is a government role. In the early stages at least, investment promoting activities are labour-intensive and there is not much opportunity for earning a profit …
>
> Asian bank, Sydney

> It is important to deal with a government body and all that implies in terms of authority, reliability and integrity …
>
> Asian primary processor, Hong Kong

The availability of information from a government investment promotion agency was seen by a number of those interviewed as a critical factor in their decision to locate in Australia rather than in another country whose government did not provide such a service. A multinational group in Hong Kong summarised the comments of many others in talking to the BIE on this issue, noting:

> … the private sector could not be relied on to provide what companies … need to convince their Board of Directors [and] could not possibly provide comparable quality and depth of information and services to that offered by the IPFP.

Uncompensated benefits from FDI

Providing information to specific investors would appear to be a potentially profitable private sector activity. However, even when investors pay for information from the private sector, the price they are prepared to pay for that information is unlikely to take account of any positive FDI spillovers to the Australian economy at large. These might include transfers of technology and know-how or access to overseas markets. Despite the existence of patents and licences, it is difficult to exclude other Australian firms from these benefits. Therefore, in a purely private market, at any given price for ‘promotion’ services, private supply and demand is likely to result in too little FDI from Australia’s perspective.

Joint production of promotion services

Some promotion services of the IPFP — such as project specific information or facilitation — could be provided by private firms. However, these services are typically produced jointly with generic services that the private sector has little incentive to supply. The program usually supplies bundles of services. BIE discussions with actual and potential investors involved with the IPFP confirmed they view the separate ‘products’ of the program as a single package.

For example, matchmaking is a service that could be provided by private agencies. However, matchmaking is not a product supplied on its own. It is supplied to potential investors along with generic advertising or information, which may weaken the private incentive to provide the service.

Principal–agent conflicts

There is the potential for conflicts between the interests of a private firm as a whole (the ‘principal’) and its regional branches (its ‘agents’). This may arise from the organisational structures of private international information suppliers, which militate against branch offices recommending investment in a country other than the one in which they are located. For example, an office in, say, New York could promote Australia to a client, but the Australian office of the firm might end up with the business — and hence fees — arising from any subsequent FDI project. Comments from private sector intermediaries confirmed that such conflicts erode private incentives to supply promotional information and services (box 4.3).

Box 4.3 Some private sector views on conflicts of interest

Some relevant quotes from BIE interviews follow:

> For most private intermediaries, a branch in Singapore will not get any fees for a project which ends up in Australia — so why should they push it?
>
> Australian bank, Singapore

> Our country offices would not work against each other by attempting to show that, say, Singapore, would be a more favourable location than Sydney … The government cannot rely on private sector international networks to push Australia.
>
> International legal firm, Sydney

4.2.2 Relative advantage of governments in promotion

Apart from possible market failure, there are other reasons why governments may be better placed to provide investment promotion services than the private sector. Chief among these is that the government may be the least cost provider for some services. Governments have a comparative advantage in providing some promotion, matchmaking and facilitation services.

For example, governments are naturally more familiar with their own approvals procedures than are private sector agencies. In its submission to the BIE, the Queensland government cited its experience in engaging private accounting companies to promote investment in that state. It noted that the bulk of the information sought by potential investors originates with government and that the private sector is less able to identify and access the information in a timely fashion.

On this matter, previous work by the BIE (1993, p.153) found that '... support services relating to expediting approvals processes linked to government regulations are appropriately provided by government agencies'.

Investors themselves frequently favour the government providing facilitation services (box 4.4). A common thread in comments to the BIE from firms investing in Australia was the best way to deal with government agencies was through a government body which 'knew the ropes' and could gain the necessary access to processes and people to resolve issues as quickly as possible.

The Australian government also has an established international network capable of reaching and servicing promotional and matchmaking effort to overseas investors. Private sector companies do not appear to have ready mechanisms for matchmaking between companies in Australia and overseas. Private intermediaries lack the global network of offices needed to effectively support investment promotion and matchmaking activities. Respondents such as the ANZ Bank in Singapore and the AIDC saw the IPFP access to Austrade's extensive international network as a significant advantage over private sector networks.

Box 4.4 Some private sector views on facilitation

A major automotive parts manufacturer that recently set up in Australia encountered customs problems in importing equipment and difficulties with the issue of tax file numbers that could not be resolved through its private sector consultant. It indicated in discussions with the BIE that, from its knowledge now, the IPFP's facilitation services would have allowed them to resolve those problems more expeditiously.

A large Asian agrifood company argued that the private sector simply could not match the capability of the IPFP (as an agency of the Australian government) to 'get things done' in the area of facilitation.

In promoting Australia as an investment location overseas, intermediaries can find it difficult to secure access to the appropriate management level of a foreign potential investor or to gain access to key decision makers. By comparison, investment commissioners and other relevant Austrade staff are able to use their Australian government affiliation and the offices of Heads of Missions, Senior Trade Commissioners and visiting ministers and special representatives to reach the top people in target companies. The Investment Commissioner in Tokyo pointed out, as an example, that her government representative status in the IPFP opens doors that she knows from her experience in the private sector would not be accessible otherwise.

Governments may also be better placed to provide investment promotion services where foreign potential investors expect the government to be involved in inward investment. Such involvement is often seen as tangible evidence of a government welcoming FDI, and bestowing some imprimatur by government. Australia's High Commissioner in Singapore saw the provision of a government imprimatur as particularly important in Asia (box 4.5). Information from firms that have invested or intend to invest in Australia suggested that private sector investment promotion could not satisfy these expectations.

Some investors or potential investors recognise that information provided by the Australian government brings an objectivity and quality to promotion that may otherwise be lacking (box 4.5). A potential business partner, for example, could well have an interest in presenting information about Australia's prospects in a favourable light or in concealing factors that would affect a potential investor's decision on a project. Alternatively, information provided to promote other countries may present Australia in an unfavourable light or conceal factors that would increase Australia's appeal. The Australian government, by contrast, will continue to stand in the market for repeat business (FDI) after any given project is attracted, and its future success in attracting investment will rest on its reputation for credibility.

Box 4.5 Some private sector views on the integrity of government information

An Asian textile firm, that has invested in Australia with the assistance of the IPFP, told the BIE that the IPFP comes with the authority of the Australian government. This means more faith in the quality of data and hence more faith of managers in decisions reached using information from this source.

In interviews in Singapore with the BIE, managers from SM Summit Holdings and Sigma Cables (companies that have invested in Australia with the assistance of the IPFP) indicated they saw approaching the embassy of the country where they were considering investment as the obvious way to obtain information that had integrity. The government was seen to have a natural advantage in this area.

4.3 Correcting market failure

If promotion and related activities are being underprovided by the private sector, is the IPFP an appropriate means of overcoming this deficiency? Has the IPFP been successful in correcting this failure, and has it done so without jeopardising the future provision of promotion and facilitation by the private sector?

Many other governments have accepted that similar programs are appropriate to their own circumstances. The initial press release announcing the investment promotion program noted the need for Australia to match the major and sophisticated efforts of other countries (Joint Media Statement 76/87). Austrade's submission to the BIE drew on UNCTAD and Corporate Location data to show that over 119 countries — including most OECD countries — have national investment or promotion bodies. Australia's regional rivals for FDI actively promote their countries as an attractive location to potential investors. Austrade also noted that some of these competitors for FDI have relatively larger budgets for investment promotion than Australia does. Singapore's Economic Development Board, for example, has an operating budget of about A$110 million a year. Malaysia, which has an economy smaller than the New South Wales economy, has an operating budget for its Industrial Development Agency of some A$15.8 million a year.

However, the perceived willingness of other governments to adopt programs similar to the IPFP is not necessarily justification for Australia to do likewise. The program requires justification in its own right — correcting market failure and delivering benefits greater than its costs. (The question of whether the program is appropriate in the sense of its benefits exceeding its costs is treated in chapter 7.)

Information from face-to-face interviews and survey responses from firms assisted by the program attest that it has played a useful role in augmenting information on Australia's investment climate and facilitation services available to potential investors from private sources. Most of the firms interviewed stated that the program provided information and services that they considered the private sector could not or did not adequately supply. (This aspect is also discussed in chapters 5 and 6.) The same message emerged from extensive interviews with private sector intermediaries in the business of providing promotion and facilitation services both in Australia and overseas. Moreover, the information gathered by the BIE suggested the services offered by the IPFP were influential in swaying investors' decisions to locate in Australia rather than other countries. Evidence on this is reviewed in chapter 5.

The BIE met with an extensive range and number of private organisations that may be seen as the natural competitors of the program (such as banks, chambers of commerce and consultants) in Australia and overseas. A consistent theme in their responses was that, while there is some marginal overlap in services provided by them and the IPFP, they do not see the current program as a competitor or as crowding them out of the market for information and facilitation for potential investors. Accordingly, the program is not considered to threaten the immediate capability — or the emergence of capability — of the private sector to cater for this market. (The role of the IPFP and its relationship with intermediaries is discussed further in chapter 6.)

Many intermediaries saw the IPFP as complementing their activities more than competing with them. They saw it as operating in a different niche and not usually involving itself in their field of activities such as mergers, acquisitions, takeovers and licensing.

A submission from Price Waterhouse, for example, noted the very productive working relationship the IPFP has had with them over the past seven years. As an example of cooperative effort, it referred to the Investment Commissioner in Germany having cosponsored an investment conference with Price Waterhouse in Frankfurt in May 1995. (This issue of complementarity with private intermediaries is also discussed in chapter 6.)

The IPFP thus appears to successfully play a role in correcting for the underprovision of promotion services offered by the private market. It also appears to be doing so without prejudice to the future provision of such services by the private sector.

Many foreign potential investors appear to have misperceptions and information deficiencies about Australia as a location for their FDI. These may arise from a number of possible sources of market failure. Market forces alone are not likely to supply the appropriate level and quality of information to correct this. The BIE is satisfied that the IPFP is an appropriate intervention to deliver promotional and facilitation services and has successfully done so. The IPFP is playing a part in correcting some of these deficiencies.

However, even though the IPFP is correcting for the underprovision of promotion services from the private sector, this should not — and it does not — preclude other approaches to improving the attractiveness of Australia to FDI. The BIE has not attempted to compare the IPFP's cost effectiveness with that of alternative policies and programs, as this task is beyond the resources of this evaluation.

4.4 Concluding comments

The research undertaken in the course of the evaluation has demonstrated there are significant misperceptions among foreign potential investors about Australia as an investment destination. These misperceptions and a lack of awareness of investment opportunities have acted to reduce the level of FDI in Australia. Market forces alone have not redressed this situation and are not likely to do so.

The following conclusions can be drawn:

- There are deficiencies in the supply of information about Australia to overseas investors, which are reflected in a lack of awareness and negative perceptions of Australia as an investment location.
- Private sector intermediaries do not always have the incentive and expertise to fully address these deficiencies and, hence, cannot be relied on to fill gaps in the overseas promotion of Australia, reflecting various potential sources of market failure in the promotion of Australia as a location for FDI.
- There are potential gains to Australia from correcting these deficiencies.
- Intervention by the Australian government through the provision of promotion services is capable of addressing the promotion deficiencies and realising some of the potential gains.

Given that the fundamental reason for the IPFP remains one of addressing knowledge deficiencies among overseas investors and in view of the rapid change in the area of information provision and exchange (for example, the development of the Internet and other forms of telecommunications), the ability of, and the incentives for, the private sector to meet information requirements now addressed by the IPFP may alter very quickly. This suggests that the underlying rationale for the program should be regularly re-examined.

The underlying rationale for the program should be regularly re-examined. This could be done by a small inter-departmental review group and the findings should feed into the regular budget any review process for the IPFP.

5 Impact on attracting foreign direct investment

Governments around the globe are competing to attract FDI and use investment promotion programs as part of their efforts. Their actions suggest FDI is generally accepted as having a positive net impact, and a wealth of economic literature supports that position (see, for example, BIE 1993, Howe 1994, Industry Canada 1994, Lloyd, 1994, Petri 1994, Bora 1995).

The Ministerial statement announcing the introduction of Australia's investment promotion scheme in 1987 reflected these views (Joint Media Statement 76/87). It noted foreign investment plays an important role in encouraging the internationalisation of the Australian economy and in improving the competitiveness of Australian industry. Foreign investment was held to increase Australia's industrial capacity, enhance the flow of technology and managerial know-how to Australian industries and increase access to foreign markets.

However, for promotion schemes to be worthwhile, they must induce more FDI than would have occurred without the promotion. How Australia's scheme fares in this regard is the subject of section 5.1. The analysis draws on Austrade data, an independent audit of Austrade's claims and a BIE survey of program firms (described in appendix C). The types of projects attracted and their geographic distribution within Australia are reviewed in section 5.2.

5.1 Has the program induced FDI?

To assess the impact of the program in attracting and facilitating foreign investment, the number and value of FDI projects and regional headquarters attracted were reviewed.

5.1.1 Investment projects and value

Data for the whole life of the program are difficult to obtain or verify. Prior to 1992 there was no comprehensive and consistent approach to reporting measures of program impact (Department of Industry, Technology and Commerce 1992). However, following an internal review in 1991-92, the Austrade and DIST arms of the program adopted performance measures to better manage the program and track its impact. The BIE's assessment of the impact of the program thus relies mainly on data after 1991-92. However, as the program has changed considerably since its inception, and it is the current (since 1991-92) form of the program that is being evaluated, this is the information that is most relevant to the analysis.

Austrade estimates

The Austrade submission provided aggregated data for the years prior to 1992-93 and for each of the ensuing financial years. This division reflects the major changes to the program following the 1991-92 review and the more complete data after the internal review.

According to Austrade estimates, the program has been involved with around 190 new investment projects locating in Australia since its inception (table 5.1). These include 15 regional headquarters projects that Austrade has played a role in attracting, but not those regional headquarters that only DIST was involved with.

Table 5.1 Number of program projects located in Australia 1987 to 1994-1995

Year	*No. of projects*[a]
1987–92[b]	72
1992-93	27
1993-94	26
1994-95	62
Total	**187**

a Excludes property transactions. **b** Data limitations required aggregation for the period 1987 to 1991-92.
Sources: Austrade submission; Investment Australia data (as at August 1995).

It should be noted that the number of projects or value of FDI are gross figures and do not reflect the *additional* FDI attracted by the program. Some of this FDI would have come to Australia anyway. To estimate the additional FDI, the program's contribution to the decision to locate in Australia must be taken into consideration. Austrade and DIST recognise this in internal performance measures. They classify 'successes' according to the degree of the program's input in a company's investment decision — that is, by *lead* role, *substantial* role and *minor* role. (For a discussion of what is meant by 'successes' see box 5.1.) A lead role is allocated where program staff consider a project would not have proceeded but for the program's involvement; a substantial role where a project may not have proceeded, or not proceeded easily; and a minor role where a project would have proceeded but was assisted under the program.

The value of FDI for those projects for which Austrade has estimates is presented in table 5.2. For 125 of these projects, firms valued their direct investments at over A$3.5 billion. As estimates are not recorded for the balance of firms, this value understates investment by firms assisted by the program.

Box 5.1 Program 'successes' — what does this really mean?

According to Austrade and DIST, program 'successes' are those projects in which the program played an identifiable role in bringing the project to Australia. The projects are usually listed as a success once a public announcement of the decision to locate in Australia has been made. However, this measure of the performance of the program does not capture the full story. Firstly, some projects provide no estimate of their FDI to the program. Another reason is that promotional strategies take time to work. There are lags between initiating a promotional strategy and firms subsequently deciding to invest in Australia. Such lags can stretch into years. Finally, some FDI may follow from program 'successes' but not be recorded. For example, firms may later add to their original FDI, firms may follow their competitors into markets or suppliers may follow a key customer. These 'follow-the-leader' or 'magnet' effects occur slowly and are unlikely to show in 'success' statistics.

The level of success attributed to the program must be considered in the light of other influences too. Investment promotion is just one tool used to attract FDI. Other government efforts (for example, to get economic fundamentals right) or specific schemes affect the attractiveness of Australia as an investment location.

The term 'success' may be misleading in itself. A project generally qualifies as a success when the firm has announced that it will proceed with the investment. If the project is later abandoned, the project may still be counted as a success when it clearly does not fit the term, at least until Austrade identifies the changed status — for example, through client feedback and its own surveys. On the other hand, counting only projects 'on the ground' ignores 'successes' of the program at overcoming information deficiencies even though the project is cancelled for reasons external to the IPFP.

Table 5.2 Estimated value of program projects located in Australia 1987 to 1994-95

	Firms providing estimates of project values	*Value of projects for which estimates are given*[a,b]
	No.	*A$m*
1987–92[c]	45	1 449
1992-93	19	620
1993-94	20	440
1994-95	38	1 039
Total	**122**	**3 548**

a Excluding property transactions. **b** Nominal dollars. **c** Data limitations have required the aggregation of 1987–92 data.

Sources: Austrade submission; Investment Australia data (August 1995).

For the period to 30 June 1992, the program was involved in 72 projects for which investment decisions were announced (excluding projects that were essentially property transactions). For 45 out of the 72 projects (63 per cent) for which FDI estimates are available, total investment was some A$1.4 billion. In the period 1992-93 to 1994-95, the program was involved in 115 projects (excluding property transactions. For 77 out of the 115 projects (67 per cent) for which FDI estimates are available, total investment was some A$2.1 billion.

Program involvement (lead, substantial and minor role) attributed by Austrade by project and by recorded FDI over 1987–92 and 1992-93 to 1994-95 is presented in tables 5.3 and 5.4. A feature in recent years has been the rise in the proportion of projects with at least a substantial degree of program involvement — from 60 per cent to 69 per cent (table 5.3).

Table 5.3 Degree of program involvement in attracting investment: by number of projects, 1987 to 1994-95

	1987 to 1991-92		*1992-93 to 1994-95*	
IPFP involvement	*No.*	*%*	*No.*	*%*
Lead role	19	27	25	22
Substantial role	24	33	54	47
Minor role	29	40	36	31
Total	**72**	**100**	**115**	**100**

Note: Percentages have been rounded.
Source: Austrade data (August 1995).

The rise in the proportion of projects with at least a substantial degree of program involvement is more pronounced in terms of value of recorded FDI — from 46 per cent to 60 per cent (table 5.4).

Table 5.4 Degree of program involvement in attracting investment: by value of projects, 1987 to 1994-95

	1987 to 1991-92		*1992-93 to 1994-95*	
Program involvement	*A$m*	*%*	*A$m*	*%*
Lead role	493	34	482	23
Substantial role	177	12	785	37
Minor role	780	54	832	40
Total	**1 449**	**100**	**2 098**	**100**

Note: Values have been rounded.
Source: Austrade data (August 1995).

Newspoll survey

To verify the ‘successes’ claimed for the program by Austrade and DIST, the results of an independent audit of program successes by Newspoll were examined (Austrade submission p.32 and supplementary evidence).

The 26 firms audited were those that Austrade claimed to have assisted in 1993-94 (Austrade 1994). Austrade claimed IPFP successes in this period accounted for FDI of some A$465 million. Of this total, Austrade claimed the program was responsible for a lead, substantial and minor role for A$163 million, A$94 million and A$208 million of FDI respectively.

Of the 26 firms Newspoll contacted, 25 firms responded and 19 were able to confirm the IPFP's assistance. Of these:

- two claimed Austrade's help was vital, and they would not have invested without that help;
- five rated Austrade's help as a key factor in deciding to invest in Australia; and
- twelve rated Austrade's help as a positive factor in deciding to invest in Australia.

Six firms could not confirm that Austrade's help was a factor in deciding to invest in Australia. In four of these cases, Austrade advised the BIE that the key person Austrade dealt with had moved on and the person contacted was unaware of what role the program had played. The remaining two firms advised that the survey was not applicable as their project had run into problems since 1993-94 and had not yet proceeded. Austrade has subsequently deleted these two firms from its database.

One of the two firms that reported Austrade's assistance was vital in their decision to come to Australia invested A$6 million. (The other firm did not specify a value.) The five firms that reported Austrade's assistance was a key factor in their location decision invested A$184 million. The twelve firms that reported Austrade's assistance was a positive factor in their decision to locate in Australia invested A$380 million.

That is, the firms that confirmed Austrade's assistance in their decision to locate in Australia reported investment of some A$570 million. This is some 22 per cent above the value claimed by Austrade for project successes in 1993-94. Several reasons could account for this difference. One is Austrade had no recorded value for six of the projects. Another is the Newspoll census was conducted after the Austrade data were collected and, because investment is conducted with a lag, may contain more investment than was captured in the original Austrade data. The total FDI indicated from the Newspoll census suggests Austrade's estimates are likely to be a conservative measure of FDI attracted by the IPFP.

It is difficult to meaningfully match the Newspoll categories (vital, key and positive factor) with the Austrade categories (lead, substantial and minor). For example, the BIE's face-to-face interviews with IPFP firms indicate that some companies who replied 'key factor' in the Newspoll study would not have invested in Australia but for the program. Hokushin and Coflexip (together accounting for some A$145 million of FDI) were among these.

The Newspoll census examined the *output* or consequences of the IPFP, rating the program by its influence on firms' decisions to locate in Australia. The Newspoll census thus differs from Austrade's classification of the level of assistance by lead, substantial and minor roles, which tends to emphasise *input* into the decision making process. Given that the Newspoll census measured outputs and Austrade measured inputs, it is not surprising to find differences between Austrade's and Newspoll's assessments of the program's influence.

BIE survey

Austrade began surveying clients after 1993-94. The first Newspoll census covered only firms assisted by Austrade in 1993-94 (Austrade intends to institute regular surveys to verify its yearly results). It did not cover firms assisted in other years of the program's operation. Accordingly, the BIE conducted its own survey to verify the value of 'successes' and to assess the role of the program. This survey covered all firms assisted by the program since its inception — around 190. At the cut-off date for returns, the survey yielded 67 responses. These represented a broad range of firms and a response rate for 35 per cent of all projects to the end of 1994-95.

By checking firms' responses on project values against corresponding claims for the program, the BIE assessed the accuracy of those values. Estimates were provided by 51 firms of their actual or proposed investments. Of these, the BIE was able to match 33 against corresponding projects for which estimates had been made for the program.

For these 33 projects, firms claimed some A$630 million of FDI. This compares with program estimates of some A$600 million — a 5 per cent difference. This close match gives considerable support for the accuracy of the aggregate values recorded for the program.

The survey also yielded evidence on the importance of the program in firms' decisions to locate their FDI in Australia. The relevant responses are shown in tables 5.5, 5.6 and 5.7.

Around 13 per cent of all respondents said that they would not have invested in Australia without information from the program. About 18 per cent said that it was unlikely that they would have chosen Australia as an investment destination without that information. However, a third of firms surveyed stated that they would have invested in Australia regardless of the information provided by the program.

Table 5.5 Would Australia have been chosen without the information provided by the program?

Response	*Number of firms*	*Per cent*
No	9	13
Not likely	12	18
Probably	24	36
Yes	22	33
Total	**67**	**100**

Note: Percentages have been rounded.
Source: BIE survey of program firms.

Commenting on the importance of information provided by the program for their decision to locate their project in Australia, most respondents said this was of major or moderate importance — 31 per cent and 42 per cent respectively (table 5.6). However, 28 per cent of respondents said the information was of minor or no importance.

Table 5.6 Importance to investing firms of information provided by the program

Response	*Number of firms*	*Per cent*
Major importance	20	31
Moderate importance	27	42
Minor importance	11	17
No importance	7	11
Total	**65**	**100**

Note: Percentages have been rounded.
Source: BIE survey of program firms.

Responses to a question on the importance of facilitation services provided by the program told a similar story (table 5.7). Of the responses on facilitation services in the Commonwealth arena, 32 per cent of firms considered the services provided by the program were of major importance, while 21 per cent of respondents indicated the program's services were of moderate importance. The proportions were similar for the corresponding importance to investing firms of state or territory facilitation services.

Table 5.7 Importance to investing firms of Commonwealth, state and territory facilitation services provided by the IPFP

	Commonwealth approvals		*State and territory approvals*	
Response	*No. of firms*	*%*	*No. of firms*	*%*
Major importance	14	32	11	24
Moderate importance	9	21	11	24
Minor importance	5	11	5	11
Not applicable	16	36	18	40
Total	**44**	**100**	**45**	**100**

Note: Percentages have been rounded.
Source: BIE survey of program firms.

Regional headquarters initiative

Because of the emphasis given to the recent regional headquarters initiative within the IPFP, the number and value of regional headquarters established as a result of the initiative warranted separate analysis as a measure of the impact of attracting FDI.

Since the RHQ marketing campaign began, the number of companies with identical regional headquarters (or major regional functions) in Australia has almost doubled. At the start of 1993-94, there were 75 companies with identified regional headquarters in Australia (Austrade submission, p.20). By the end of 1994-95, there were around

140. Even allowing for growth in the economy and the influence of other government policies, this increase suggests the campaign has had an impact.

The RHQ unit within DIST has been involved in getting 41 regional headquarters to Australia (Austrade has also been involved with 11 of these). The unit has classified those it had some involvement with into high, medium and low involvement categories (table 5.8). These categories broadly correspond to the lead, substantial and minor classifications used by Austrade.

Of the 41 regional headquarters, the RHQ unit claimed a high degree of involvement with 25 (60 per cent), medium involvement with eight (about 20 per cent) and a low degree for eight (about 20 per cent). The BIE survey did not provide for testing the unit's degree of involvement.

Table 5.8 RHQ unit involvement with regional headquarters in Australia, 1993-94 and 1994-95

Degree of involvement	*Number of regional headquarters*	*Per cent of regional headquarters*
High	25	60
Medium	8	20
Low	8	20
Total	**41**	**100**

Note: Percentages have been rounded.
Source: RHQ unit within the Department of Industry, Science and Technology.

For these 41 offices, the RHQ unit estimated the total FDI in the 41 regional headquarters at around A$1.4 billion. Responses from the BIE's survey of program firms allowed a comparison of only seven of the 41 projects. The aggregate value given by the respondents — A$107.1 million — was very close to the A$106.4 million reported by the RHQ unit, providing qualified support that the overall value claimed by the unit to result from the campaign is an accurate reflection of the amount claimed by the firms themselves.

5.1.2 Program 'share' of FDI

The project categories of *lead*, *substantial* and *minor* used by Austrade to indicate program involvement in investment projects are useful as some measure of the influence of the IPFP in attracting FDI. They are, however, an imperfect reflection of the extent to which a firm was induced to invest in Australia because of the program. For example, a project put into the *lead* category due to the extensive effort by program staff will require a range of conditions to be met for the project to end up in Australia. Other more fundamental factors — such as geographic location or political stability — also influence Australia's attractiveness as an investment location (Allen Consulting Group 1994). However, the program does have an effect at the margin on a firm’s decision to locate in Australia. In some cases, this influence is vital in the decision to consider Australia as a possible location, and in Australia being ultimately chosen.

In an attempt to determine the influence of the IPFP on inducing firms to locate in Australia, the BIE reviewed project files and conducted a mail survey and face-to-face interviews with IPFP firms.

From information contained in project files and obtained from the interviews, the BIE assessed that for the lead category of projects (with firms such as Hokushin and Coflexip) IPFP involvement provided a very high marginal influence. For projects in this category, around 90 per cent of FDI might be attributed to the program. For projects in the substantial category, the program appeared to have considerably less influence in swaying the decision to invest in Australia, although the program’s efforts helped in bringing the projects forward in time. For this category, the BIE considers about 20 per cent of FDI could be attributed to the efforts of the IPFP. For projects in the minor category, the program had a negligible influence at the margin on the decision to invest in Australia. However, some proportion of the FDI should be attributed to the program in recognition that it may have helped bring some FDI to Australia sooner rather than later. On balance, the BIE considered some 5 per cent of the value of FDI in this category could reasonably be considered a result of the program.

Applying these proportions to the value of projects in each category from 1992-93 to 1994-95 (table 5.4) gives a total of about A$632 million (table 5.4). The past three financial years were chosen because the current program is very different from the program prior to 1992-93. It should also be remembered that investment estimates have been recorded for only two-thirds of the projects in this period.

The BIE survey of firms on the role of the program provided an alternative method to assess the likely influence of the IPFP. Responses suggest the IPFP played a major role in inducing around a third of the IPFP projects to Australia. Applying this factor to the recorded value of projects over the same 1992-93 to 1994-95 period (A$2.1 billion) yields an estimate of about A$700 million.

Both methods generate values that differ by only 10 per cent. Overall, the BIE considers the IPFP has probably induced about a third of the total FDI associated with the IPFP.

The BIE estimates that over the past three financial years, the IPFP has induced an average of about A$235 million of FDI a year.

The conclusion that the IPFP makes a difference to overall inflow of FDI is consistent with other more general studies. For example, Wells and Wint (1990) examined this issue for a wide array of investment promotion schemes around the world. They found, for a range of industrial countries that included Australia, that investment promotion was the most significant explanatory variable (pp.41–45). Their analysis provides strong support for the claim that investment promotion can be effective in inducing foreign investment. Earlier work by SRI International-Washington (1984) also concluded that promotion programs can effectively stimulate investor interest and generate new business activities.

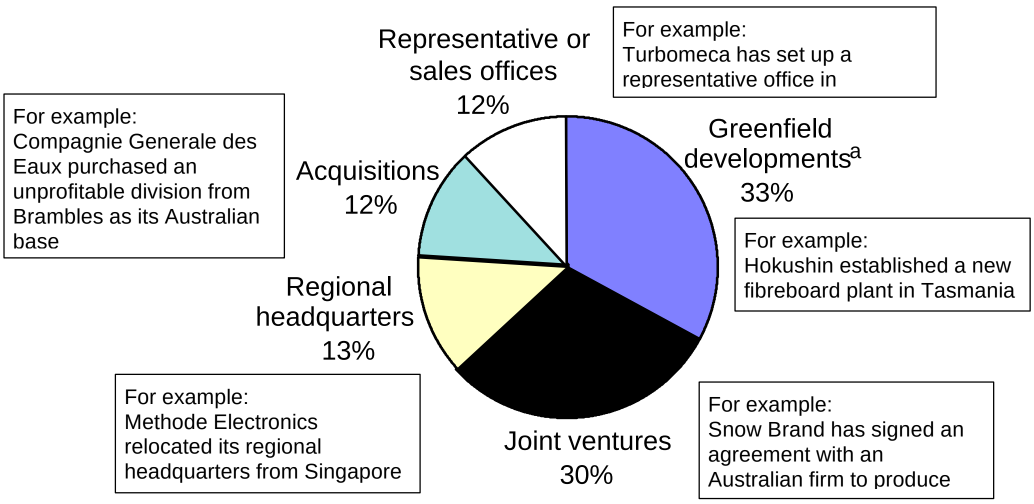
5.2 Types and geographic distribution of projects

It is also interesting to examine the type of projects attracted to Australia as well as the distribution of the projects among the states and territories.

5.2.1 Types of project

Austrade data indicates about two-thirds of program projects are either greenfield developments (for example, Coflexip's manufacturing plant in Western Australia) or joint ventures. The types of project associated with the IPFP are represented in figure 5.1 based on data available from the start of 1992.

Figure 5.1 Types of program projects, by number, January 1992 to June 1995

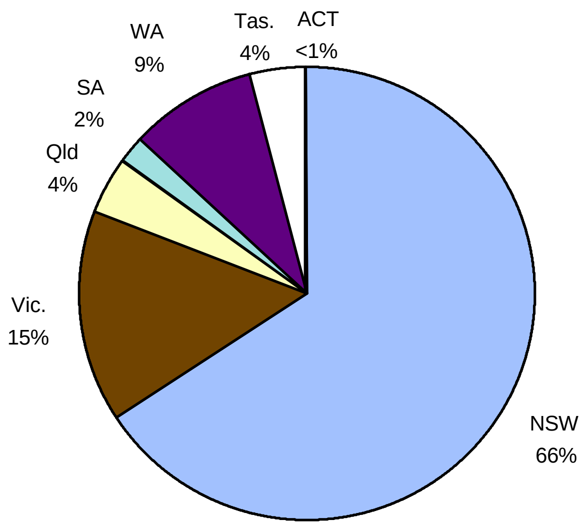


a Does not include greenfield regional headquarters.
Note: The Austrade submission provides examples of the businesses involved in each project area and their country of ownership.
Source: Austrade submission, p.20.

5.2.2 Distribution of projects within Australia

Since January 1992, all states and territories except the Northern Territory have had IPFP projects locate in their jurisdiction. However, just over 80 per cent of the recorded value of IPFP projects were located in either New South Wales (66 per cent) or Victoria (15 per cent). The share of recorded IPFP project value by state and territory is shown in figure 5.2.

Figure 5.2 State and territory shares of IPFP projects, by value, January 1992 to June 1995[a]



a Data prior to January 1992 are unavailable.
Source: Austrade data.

It would be expected that the larger a state’s economy, the more FDI would be attracted to it. To adjust for this, the BIE calculated the ratio between each state’s or territory’s share of the total program FDI and their share of national production (GDP). The results are presented in figure 5.3. A ratio of more than one implies a region has program FDI more than proportional to its share of GDP. A ratio of less than one implies the reverse. As can be seen in figure 5.3, New South Wales and Tasmania have much greater shares of program FDI than of GDP. The share for Western Australia is about proportional, while the shares of the other states and territories are less than proportional.

It is difficult to infer too much from this data as, for example, lumpy one-off investments can distort results. The Hokushin project alone, for instance, accounts for the relatively favoured position of Tasmania. That aside, it seems New South Wales has been particularly favoured as a location for IPFP projects.

Figure 5.3 Share of IPFP projects' value relative to state or territory product (Base year = 1993-94)

Note: Based on post-January 1992 data as earlier data does not allow state comparisons.
Source: Austrade data.

5.3 Concluding comments

The BIE is satisfied that the IPFP has been successful at the margin in attracting additional FDI to Australia. It is estimated that around a third of the total FDI associated with IPFP projects has been induced as a result of the program's activities.

Based on the total recorded FDI claimed under the IPFP for the past three financial years — about A$2.1 billion — the BIE considers an average of around A$235 million a year may be said to have located in Australia as a result of the program's activities over that period.

This estimate should be treated with care, however. Factors such as the influence of other government programs, unrecorded FDI for program 'successes' and anticipated FDI that may not eventuate suggest this is an indicative rather than definitive figure.

6 Program effectiveness

The terms of reference for the evaluation require the BIE to assess the effectiveness of the program. The evaluation also requires the BIE to comment on whether the program objectives should continue in their present form or be modified.

What are the program's objectives? How do its outcomes measure up against its objectives? Can it be confidently said that the observed outcomes were caused by the program? Answering the last two questions is complicated by a host of factors, including lags between cause and effect; the maturation of the program and changes in its elements and strategic focus; and the difficulty in distinguishing outcomes arising from the program from the effect of other factors, such as other government policies and the general business climate.

The formal objectives of the program are set out in section 6.1, and whether the program outcomes are meeting those objectives is assessed in section 6.2. The suitability of the existing objectives to the current operation of the program and whether those objectives need be altered or added to are considered in section 6.3.

6.1 Current objectives

The current formal objectives of the IPFP, as revised following the 1991-92 internal review, are:

1. to improve the perception of Australia as a destination for foreign investment by promoting Australia to foreign firms involved in manufacturing and services as a location for their activities, having regard to Australia's competitive strengths;
2. to reduce deficiencies in investment support services by facilitating the development of links between prospective investors and commercial opportunities in Australia with the emphasis being on complementing private sector activity, encouraging the transfer of technology and management skills to Australia and enhancing the access of Australian industry to global markets; and
3. to ensure the program's activities are directed to effecting a cooperative approach between the Commonwealth and the states, recognising the interests of both levels of government in investment promotion.

Since these revised objectives were formed, some notable developments have affected the IPFP's operations and its objectives. Among these is the widening of the program's activities to include the regional headquarters and major project facilitation initiatives. Although no stated objectives exist for these initiatives, implicit objectives are embodied in official statements regarding their addition to the IPFP.

The objective of the regional headquarters initiative is:

4. to encourage and facilitate the establishment of regional headquarters by major companies in Australia (from a speech by the Prime Minister on 24 September 1993 on the government's approach to regional headquarters).

The objective of the major project facilitation initiative is:

5. to guide industry through government approval processes — with the aim of encouraging investment in Australia by making the process of investing in major Australian projects easier, faster and more efficient for the companies concerned. (from the Hon Laurie Brereton, MP, Press Release, 13 March 1992, and keynote speech to a conference on *Facilitating Major Projects*, 6 April 1992).

6.2 Outcomes relative to objectives

In this section, the outcomes of the program are assessed against its current objectives to determine whether the objectives are being met.

6.2.1 Objective 1

> *Improve the perception of Australia as a destination for foreign investment by promoting Australia to foreign firms involved in manufacturing and services as a location for their activities, having regard to Australia's competitive strengths.*

For the population of firms involved with the program that have located or are now considering locating FDI projects in Australia, the program appears to have improved their perception of Australia as a destination for investment. This assessment is based on face-to-face interviews with firms, survey responses and examinations of program files (see box 6.1). The BIE's broad confirmation that the program has succeeded in attracting additional FDI to Australia in chapter 5 also supports the view that the outcomes of the program satisfy this objective.

A meaningful assessment of the impact of the program on the perceptions of Australia by the general population of foreign firms that have not invested under the aegis of the program is not feasible. This is a task beset with significant methodological difficulties and one beyond the resources of this evaluation. The implications of these practical difficulties are discussed in section 6.3.1.

Part of this objective requires the IPFP to target firms in the manufacturing and services sectors. The BIE is satisfied the program has also met this element of the objective, given evidence on the type of firms attracted under the program, the review of program files and activity reports, and interviews with investment commissioners.

Box 6.1 Changing the perceptions of foreign investors: some examples

A manager with an Asian company noted that prior to contact with the IPFP the company had misperceptions about Australia as a profitable investment location. This was despite having a trading relationship with an Australian firm. Since being supplied with information about Australia by the IPFP, the company is impressed with the changes in Australia's economic environment. The IPFP also introduced the company to other foreign investors with recent experience in Australia who confirmed what the company had been told. The company is now setting up a manufacturing plant in Queensland.

The Director of the Western Australian Trade Office in Hong Kong noted that in Taiwan and China, misperceptions and the lack of information about Australia are more serious and widespread than in Hong Kong and Singapore. He gave examples of major misperceptions held by very large Taiwanese companies, and stated these were radically turned around after personal contact with IPFP staff.

A senior executive of a European firm noted that the company initially decided to locate in Singapore. It had very negative perceptions of Australia, regarding it as a high tax, high strike location, and having too narrow a manufacturing base. Information provided by the IPFP changed those views and 'put Australia on their map'. The firm did not go to Singapore, and opened its manufacturing plant in Western Australia in 1995.

Source: BIE interviews.

However, program resources have also been directed to firms other than those in manufacturing and services. In part this has been a reaction to requests for assistance. It also reflects the opportunistic response of program staff when they identify a lack of awareness and misperceptions held by potential investors in other sectors that is otherwise impeding FDI in Australia. This is explored further in section 6.3.

The final part of the first objective is 'having regard to Australia's competitive strengths'. The promotional effort of posts mostly focuses on firms or parts of industry sectors where the prospects are high of convincing firms that investing in Australia makes commercial sense. This is most likely where those prospects reflect Australia's competitive strengths or the information provided clearly shows Australia has competitive strengths in the areas that the firms are interested in. Promotional information and publications by the IPFP focus on where Australia has competitive strengths.

At a more general level, the BIE considers site visits, missions and general inquiries can be taken as indicators of foreign firms' improved perceptions of Australia as a destination for FDI. BIE interviews with program firms and testimonials from firms involved in visits and missions, for example, confirm such activities have improved their perceptions of Australia.

On the basis of the above, the BIE considers the IPFP achieves its first objective. However, the BIE considers the objective as currently stated requires some refining.

The BIE considers the IPFP achieves its first objective.

6.2.2 Objective 2

Reduce deficiencies in investment support services by facilitating the development of links between prospective investors and commercial opportunities in Australia with the emphasis being on complementing private sector activity, encouraging the transfer of technology and management skills to Australia and enhancing the access of Australian industry to global markets.

This objective is about getting matchmaking to work better. It is about addressing gaps in private sector networks and attracting projects that bring wider benefits to local industry and the Australian community.

Facilitate links between investors and opportunities

It was established in chapter 4 that the market in this area does not always operate satisfactorily from Australia's perspective. Information collected by the BIE, some of which is referred to in chapter 4, shows the program can overcome deficiencies in the 'matchmaking' market. A submission from Price Waterhouse stated the deficiencies in the private market for this sort of information are significant and government inputs are needed to fill this information gap.

The matching of a Japanese fish marketing company with a South Australian partner (referred to in chapter 4), and a Japanese electronics company with Australian partners (see box 6.2) are recent examples of the program filling this gap.

Box 6.2 Successful linking of investors with Australian opportunities: an example

A Japanese firm formed a joint venture with a small Australian high technology company. Senior executives of the firm said the facilitation service offered by Austrade had been an enormous help in forming that link. Without Austrade's services, it would have been very difficult to get the commercial and technical information needed to progress the project. They said the Australian company was introduced to their company by the Australian government (via its agent in the form of the IPFP). Because of this it was much easier to introduce the project and progress it through the decision making process of the firm than it would have been without Austrade's involvement. In practical terms this involvement is very important in getting anything off the ground.

The IPFP's use of Australian investment briefs is a good example of the program meeting that part of the second objective requiring it to facilitate the development of links between prospective investors and commercial opportunities in Australia. The IPFP activity measures supplied by Austrade indicate about 130 industry briefs have been generated in the past three financial years. The matching of Hokushin with a commercial opportunity in Tasmania is one example of a highly successful investment brief.

Another example, indicating the synergies possible through meshing the program's efforts with those of the private sector, is a recent Australian investment brief seeking a partner for Pacific Hydro. The Australian private sector intermediary that developed the proposal upon which that Australian investment brief was based stated there was no effective private market for networking its proposal overseas. Marketing it through the IPFP filled this void, linking potential investors and commercial opportunities in Australia in the process.

Complementing private sector activity

Since its inception, the program has aimed to forge links with private sector intermediaries to improve the results of its promotional effort.

IPFP efforts to improve coordination and cooperation with the private sector in Australia increased following the opening of Investment Australia's Melbourne office in 1992. This office largely assumed responsibility for expanding relationships with Australian private sector intermediaries. The IPFP has also improved its links with the private sector by creating opportunities for staff secondments from accounting and law firms to Investment Australia — the Austrade arm responsible for the IPFP. These links have had a threefold value: improving the program's technical ability; building links with intermediaries; and increasing IPFP access to Australian firms seeking FDI.

The BIE met with a wide range of private sector intermediaries in both Australia and overseas and questioned them on whether the IPFP complemented their activity. Almost universally the response was that the operations of the program primarily complemented their operations. The Economist Intelligence Unit in Sydney, for example, said the IPFP has increased their business by increasing international awareness of investment opportunities in Australia. Executives of the ANZ Bank in Singapore went so far as to say that not only did the program not compete with them, it actually brought extra business to them.

An example of program and private sector complementarity is the treatment of inquiries from potential investors. Where overseas investment inquiries originating with investment commissioners are not taken up by state and territory agencies, these inquiries are distributed to Australian private sector intermediaries such as accounting and law firms, and financial institutions. Overseas, Austrade's IPFP staff often refer clients to private firms for specialist legal and accounting services. Similarly, several overseas intermediaries made the point that they direct clients to the IPFP for information on Australia.

Companies interviewed by the BIE that had been assisted by the program confirmed that the program passed them on to private sector intermediaries once their project reached the stage where this was appropriate.

> The BIE considers that the IPFP has integrated its activities with those of private sector intermediaries and by and large complements their activities rather than displaces them. This appears true both in Australia and overseas.

Private sector intermediaries generally viewed the IPFP as very valuable in forging stronger links with government investment promotion. As noted in chapter 4, Price Waterhouse has had a productive working relationship with the IPFP for the past seven years.

On the basis of evidence compiled by the BIE, the program appears to be complementing private sector activity, one component of the second objective.

Encouraging technology transfer

Measuring any transfer of technology (which includes know-how and management skills) resulting from investment by IPFP firms is difficult. However, information from submissions, BIE interviews with firms and the BIE survey of program firms suggests the program (through the FDI it induces) has encouraged the transfer of technology to Australia.

Austrade, in its submission, point to the importance of FDI as a conduit for the transfer of technology to Australia. Austrade's position is that as the program has been instrumental in increasing FDI it has been responsible for any concomitant increase in associated technology transfers and spillovers. The economic literature provides support for the claim that certain types of investment induced under the IPFP — such as greenfield projects by subsidiaries of multinational enterprises and joint ventures — are likely to facilitate technology transfer and technology spillovers (see, for example, OECD 1986 and Industry Commission 1992). Although such transfers undoubtedly result from the IPFP, assessing their magnitude is difficult — this is discussed further in chapter 7.

Recent BIE work on business linkages (BIE 1995b) also found evidence to support the view that FDI encourages the transfer and spillover of technology and know-how to Australia. Data collected for that study of business networks indicates that Australian firms' links with foreign owned firms or subsidiaries more commonly provided benefits in the form of increased access to technology than links with domestic firms. This builds on earlier BIE findings that indicate the importance of links with multinational enterprises for technology transfer (BIE 1993).

Submissions provided many examples of specific technology transfers resulting from FDI involved with the program. The submission from Dr Roso (former Investment

Commissioner in Europe), for example, noted that one program firm introduced new technology that revolutionised the meat processing industry with respect to production costs and quality.

In the BIE survey, program firms were asked if their projects involved the introduction of new workforce skills, new or superior products or services, new process technology or new management practices. Most firms indicated positive responses for more than one category. The most likely to result in a technology transfer to Australia was that of ‘new or superior products or services’. Almost 80 per cent of firms’ responses indicated their projects would embody such products or services (see table 6.1).

Table 6.1 Survey responses indicating technology transfers

Area of likely technology transfer	*Positive responses*		*Negative responses*		*Do not know responses*	
	No.	*%*	*No.*	*%*	*No.*	*%*
New workforce skills	34	48	23	32	14	20
New or superior products or services	57	78	12	16	4	5
New process technology	29	42	26	38	14	20
New management practices	20	30	22	33	25	37

Note: Percentages have been rounded.
Source: BIE survey of program firms.

Based on this evidence, the BIE considers the IPFP is encouraging the transfer of technology and management skills, a component of the second objective. However, the BIE has some reservations about how this component of the objective may be best pursued by program staff. This issue is discussed in section 6.3.2.

Enhancing access to global markets

Part of the second objective deals with enhancing access to global markets. Determining whether the market for a project is likely to be domestic or overseas is relatively easy. As this is usually apparent at a very early stage of a prospective project, it provides a reasonable goal for program staff.

There is good evidence that the program has enhanced access of Australian industry to global markets.

The Austrade submission drew on a number of studies to show that FDI facilitates export market penetration. It noted, for example, a 1990 study into FDI in East Asia (Hill 1990) that concluded that FDI plays a positive role in host countries’ export orientation. The inference is that, to the extent the IPFP has attracted FDI, it has had a role in accessing export markets. Austrade also referred to a study by

Allen *et al* (1992) that indicated the potential for FDI by multinational enterprises to stimulate entry to overseas markets. That study found that after local suppliers began supplying an inward investor, over 40 per cent of them sold their products into new export markets and a third reduced the time it took them to develop and bring to market a new product.

Similar results were found in recent work by Aitken, Hanson and Harrison (1994). They found foreign owned firms acted as a catalyst for other exporters and that such spillovers were restricted to the activity of multinational enterprises — that is, they did not derive from locally owned firms.

The proposition that FDI by foreign owned firms (multinational enterprises) facilitates Australian firms' access to export markets finds support in recent work of the BIE. Data collected on business linkages (BIE 1995b), indicates that Australian firms' links with foreign owned firms or subsidiaries more commonly provided benefits in the form of increased exports than links with other domestic firms.

The BIE received considerable evidence that the program specifically had a significant impact on facilitating Australian firms' access to export markets. The submission from Dr Roso is an example. He referred to a number of program projects (for example, Bilfinger & Berger) where a European corporate investor was able to offer an Australian company an international sales network and international market presence to promote and sell its products.

Austrade commented in particular on the role of joint ventures as vehicles for wider market access. Its submission noted that:

> About forty-two per cent of program successes have involved companies establishing joint ventures/strategic alliances or acquisitions in Australia. (p.23)

and

> As a general rule, the Program only becomes involved in acquisitions where the potential foreign investor … is intending to use an acquisition as a vehicle for … expanding into the Asia Pacific region. (p.23)

A good example illustrating Austrade's point arose from discussions between the BIE and a Japanese company that invested in a joint venture in Australia. The company noted the quality of the product they now source out of Australia is apparent to other players in their home market. They believe this will stimulate others in Japan to seek Australian suppliers of that product to expand their own operations.

The BIE survey of program firms asked the firms if, in their view, their projects would introduce new overseas markets for Australia. About two-thirds of the 67 respondents indicated their projects would do so, 22 per cent said that their projects would not and about 10 per cent did not know. The majority of those projects that would open up markets were planning to use Australia to export to the Asia–Pacific region. Japanese investors indicated that they often produced in Australia specifically for the Japanese market.

To gauge the export orientation of program FDI, the BIE survey also asked firms about the proportion of total sales from their project that they expected to be outside Australia. Almost 70 per cent of respondents asserted that their projects would generate exports. The distribution of those responses which expected export sales, on the basis of the proportion of estimated project sales from exports, is shown in table 6.2.

Table 6.2 Expected proportion of project sales on export markets

	0 to 20 %	*30 to 50 %*	*50 to 70 %*	*70 to 90 %*	*90 to 100 %*
No. of respondents	11	11	10	6	9

Source: BIE survey of program firms.

The information before the BIE suggests the IPFP's performance is meeting that part of the second objective dealing with enhancing the access of Australian industry to overseas markets.

Based on the available evidence, the IPFP appears to have met its second objective.

6.2.3 Objective 3

Ensure the program's activities are directed to effecting a cooperative approach between the Commonwealth and the states, recognising the interests of both levels of government in investment promotion.

The states and territories have an ongoing interest in investment promotion and facilitation. All states and territories devote some resources to investment promotion and New South Wales, Queensland, Victoria, South Australia, Western Australia and the Northern Territory have overseas posts in their own right. Coordination of Commonwealth efforts with the efforts of the states and territories reduces duplication of effort and the erosion of overall effectiveness.

Information from interviews with Commonwealth program staff and from officers in state and territory promotion agencies indicates that in the early days of the program, the relationship between the Commonwealth and state and territory agencies yielded some benefits, but fell short of its potential. However, evidence gathered by the BIE indicates that since the 1991-92 internal review, a substantial effort has been put into developing a more cooperative and productive approach and achieving better cooperation.

The views of the players involved suggest success in this area. The submission from the Department of State Development (New South Wales), for example, noted there has been an increasing degree of coordination between the Commonwealth and the states. It also noted the program has improved contact between the Commonwealth and New South Wales government. Information from the Victorian government — in its submission and in discussions — also indicates the program has had a significant positive impact on cooperation.

The ‘Team Australia’ approach adopted by the IPFP has also had a considerable impact on improving cooperation among the relevant agencies. The Victorian government provided specific endorsement of this approach. Cooperation is also effected through regular IPFP meetings of Commonwealth, state and territory agencies. These are now held about every six months.

At an operational level there is ample evidence of a cooperative approach. One example cited in Austrade’s submission was the willingness of states to have IPFP staff accompany potential investors to Australia and be involved in meetings in their states. Another example is the arrangements in place for Austrade to assist states in preparing proposals for pre-feasibility consultancy study funding.

In interviews with the BIE, all state and territory agencies noted that this improved cooperation and coordination have delivered significant benefits. As an example, several states pointed to the change to having investment commissioners as the sole contact between their overseas investor clients and state agencies. This had improved investors’ perceptions of Australia’s promotional effort as it reduced multiple Commonwealth and state approaches to the same firms.

However, there appear to be some problems in the Australian and overseas operations of the program. One concern is that the IPFP addresses primarily the interests of the larger states. The submission by the South Australian Economic Development Authority noted:

> There is a perception that the Commonwealth government focuses attention on the Eastern states to the detriment of other regions. (p.8)

However, the authority also noted:

> The EDA also welcomes and would like to encourage visits by key investment attraction personnel to the state. The induction program for new staff [that is, investment commissioners] that has operated for some time has been a positive development and one that should be continued. (p.8)

The BIE received information indicating a few instances of poor cooperation between some investment commissioners and overseas representatives of state agencies. These few cases appeared to be the result of both personality differences and inadequate communication. The IPFP cannot be expected to eliminate personality differences, but it can be expected to develop processes to facilitate better outcomes. By and large this has been the experience of the program. As the South Australian Economic Development Authority stated in its submission:

> … in Europe, there has been substantial improvement in the level and frequency of consultation between Commonwealth and state investment attraction agencies. (p.8)

Even where friction within the IPFP was evident, the states and territories acknowledge this occurs within a framework of communication where things can (and do) get worked out. One state agency even noted that problems they had drawn to the attention of the BIE at the start of the evaluation had subsequently been resolved during the course of the evaluation. The submission from the Western Australian Department of Commerce and Trade endorsed the current program's efforts when it noted:

> The willingness to implement appropriate change has been an important factor in increasing the spirit of cooperation between, and assisting the development of, improved working relationships between participants of the IPFP. (p.4)

Similarly, the Victorian Department of Business and Employment noted in its submission:

> … the IPFP provides a strong and ongoing mechanism through which the Commonwealth and state investment promotion agencies regularly communicate and exchange information regarding their specific activities and the general operation of the IPFP. This is reinforced at the highest levels under the 'Team Australia' approach to trade and investment activities. (p.14)

The IPFP has been instrumental in achieving improved coordination and cooperation in investment promotion and facilitation by Commonwealth, state and territory agencies. It has demonstrated the capacity to respond positively to pressure for change and for continuous improvement. Overall, the BIE assesses the program is operating effectively relative to its third objective.

6.2.4 Objective 4

> *Encourage and facilitate the establishment of regional headquarters* [broadly defined] *by major companies in Australia.*

An assessment of whether this IPFP objective has been met relies mainly on the outcome of the initiative in increasing the number or value of regional headquarters in Australia.

As outlined in chapter 5, since the start of 1993-94 the RHQ unit of DIST claims involvement with 41 projects. The unit claimed a high degree of involvement with 25 of these projects (60 per cent), medium involvement with eight (about 20 per cent) and a low degree for eight (about 20 per cent).

Establishing a causal link between the activities of the regional headquarters initiative and new regional headquarters locating in Australia is a more difficult matter. It is muddied by the presence of other government initiatives — such as the Partnerships for Development Program and the Fixed Term Agreement Program affecting the same firms. The potential influence of these initiatives can be significant. For example, of the regional headquarters projects that the RHQ unit has been involved with, around 40 per cent have some association with the Partnerships for Development Program. Moreover, all of these projects were categorised by the unit as having a high degree of their involvement. Thus, about 70 per cent of projects in this category have some association with the Partnerships for Development Program.

However, the RHQ unit tends to focus on firms at an early stage in the continuum of deciding to set up in Australia, while the Partnerships for Development Program tends to concentrate on firms already in Australia. This suggests there are synergies between the programs and that they complement each other. This was also a general conclusion of a BIE (1994) review of the Partnerships for Development Program and the Fixed Term Agreement Program.

An additional complication in establishing the contribution of the IPFP to regional headquarters locating in Australia is the role of various incentives available. These may be from the Commonwealth (as part of its policy stance to regional headquarters) or from the states. In some cases such incentives can become a critical influence as in the case of a company exempted from about A$30 million of sales tax.

Although sole responsibility for regional headquarters being located in Australia rarely lies with the IPFP alone, it is evident from survey responses and interviews with firms that the regional headquarters marketing campaign has positively affected the number of regional headquarters in Australia. In particular cases, major companies such as American Express (see box 6.3) have told the BIE the campaign was a major factor in encouraging them to locate in Australia and facilitating that move.

Box 6.3 American Express's regional operations centre

In June 1995, American Express announced that it would establish its Asia Pacific regional operations centre in Sydney. By doing so, American Express will combine 13 existing Asian operations into one centre to provide support services to customers throughout the Asia Pacific. The centre will initially employ 300 personnel with Asian language skills (of 600 skilled workers), making it Australia's largest multilingual services centre.

According to the company, a government brochure on Australia's culturally diverse population and an impressive presentation by Australian government officials [IPFP] sealed the decision to invest in Australia.

Sources: DIST (1995); Tye Kim Khlat (1995).

Responses to the BIE survey on the role of the program also give some indication of its importance. Of the 14 regional headquarters firms that responded to the survey, four stated that information provided by the IPFP was of major importance, seven said that it was moderately important and three said that it was of minor importance. Given the small number of observations, these results should be treated cautiously.

The BIE is satisfied that the regional headquarters initiative does encourage and facilitate the establishment of regional headquarters in Australia by major companies. Accordingly, it considers the IPFP outcomes have met its fourth objective.

The objective of encouraging and facilitating regional headquarters of major companies gives no indication of how to gauge if one project is better than another. In practice, the IPFP generally operates on the basis that 'bigger' (more dollars of FDI or number of employees) is 'better'. If inducing the presence of a major company (in the form of its regional headquarters is the thin edge of the wedge for later investment, there may be no compelling reason to target larger projects. As the IPFP faces strong incentives to get the most out of limited resources, the BIE considers the translation of the objective into sensible operational practice is likely to occur without rewriting the objective to make it more specific.

6.2.5 Objective 5

> *Guide industry through government approval processes with the aim of encouraging investment in Australia by making the process of investing in major Australian projects easier, faster and more efficient for the companies concerned.*

To date (December 1995) only 11 projects have been designated as eligible for facilitation assistance under the major project facilitation initiative. Information on six of these projects provided evidence to the BIE on the worth of the facilitation services they received from the IPFP. The common thread from this information is that the IPFP has been, is or will be very useful in guiding the firms involved through the approval process. It has made and is making the process of investing easier, faster and more efficient (box 6.4).

Hokushin and Coflexip are among the major projects designated for facilitation. In BIE discussions with Hokushin — which is investing in a greenfields medium density fibreboard plant in Tasmania — the company stated it had received excellent facilitation services. The company was impressed with the proactive approach of the IPFP in anticipating and identifying problems and then getting the information to get past those difficulties. As a result of the very positive experience Hokushin has had with the IPFP, it said it would tell other companies that Australia was a good place to do business. In the survey responses from program firms, Coflexip noted that the

IPFP's facilitation assistance in the areas of Commonwealth government approvals (for example, immigration) and state, territory or local government approvals was of major importance to the company.

From the evidence on major project facilitation, the BIE considers the IPFP has met its fifth objective.

Box 6.4 Major project facilitation in action

An example of the benefit of major project facilitation is the A$440 million eastern gas pipeline project to supply south-eastern New South Wales and Sydney with natural gas from Bass Strait. The project is a joint venture between BHP Petroleum and Westcoast Energy, a major Canadian-based company.

In November 1994, at the request of BHP, the IPFP provided advice to BHP and Westcoast Energy on Commonwealth approvals required by their project and provided help to organise a meeting where interested federal agencies were briefed on the project by BHP and Westcoast Energy. The agencies included the Environment Protection Agency, the Department of Primary Industry and Energy, the Department of the Prime Minister and Cabinet, the Gas Reform Task Force and Customs. The IPFP also contacted New South Wales and Victorian government agencies and established a joint government task force to coordinate state and Commonwealth approvals. The most crucial of these approvals related to the environmental assessment of the 980 km pipeline.

The proponents sought project approvals within a clearly defined commercial timeframe to meet market demand. The aim of the facilitation was to develop a single approvals process that would satisfy the project's commercial needs within established environmental standards and statutory requirements. The aim was to coordinate Commonwealth and state approvals so that all approvals were achieved in parallel.

During the first half of 1995, Commonwealth and state agencies developed a single coordinated approvals process for achieving environmental assessment and pipeline permits in line with commercial timeframes. A model for joint government approvals that can be applied to a wide range of other investment projects was developed.

IPFP staff plan to continue to monitor the project's progress and address any new issues as they arise. The proponents have acknowledged the value of major project facilitation to date, and expect to complete the project approvals within their commercial timeframes.

Source: DIST Investment Facilitation Section.

6.3 Are changes to IPFP objectives warranted?

In general, the existing objectives appear to be consistent with the Commonwealth government's focus on integrating Australia into the global (and especially Asian) economy and with its recent emphasis on investment policy. However, some changes seem warranted.

6.3.1 Objective 1

The BIE considers the first objective requires some refining. As currently stated, the current objective is too general and is not amenable to outcome measurement.

The phrase 'improve the perception' is too nebulous, it gives little guidance on what is to be improved and no degree of improvement is specified.

Much of the work of investment promotion agencies aims to change the perceptions or image held about a country or to improve knowledge of an economy's investment climate. However, there is little useful data on the specific impact of promotion on these two areas, which is surprising, given the fundamental objective of overcoming information deficiencies among potential foreign investors. Wells and Wint (1990, p.38) note evaluations of improving perceptions have largely been on an *ad hoc* basis. The failure of agencies to determine a baseline against which to test the results of any campaign of image building has meant after-the-event surveys are of little worth. It is also difficult to isolate the effect of an image building program from other events that change people's perceptions of a country (Wells and Wint 1990, pp.45–46).

Without baseline data, it is not possible to assess changes in the perceptions or the level and quality of information held by the general population of foreign firms. Some scope for this may exist in the future if the Market Australia research of perceptions proves amenable to such a task.

Following from the above, the IPFP's general objective of improving the perception of Australia as an investment location '... to foreign firms' also presents problems. The target population of 'foreign firms' is too general, encompassing as it does all foreign firms. It is not a target population amenable to measuring change in perceptions.

Measuring changes in perceptions is a feasible task only with those firms targeted by the IPFP. At the specific or firm level, IPFP contacts could establish the initial extent of misperceptions and knowledge deficiencies and could monitor change. The fact that the effectiveness of the program can be readily assessed only for the firms involved with the IPFP puts a question mark over the legitimacy of the objective as currently specified. Moreover, the focus should be on firms with potential to invest in Australia, rather than firms in general.

The focus of the program has moved beyond an emphasis on the correction of *general* misperceptions or knowledge deficiencies among firms to focusing more on correcting those held by *specific* or key investment decision makers. This change in focus is consistent with the experience of investment promotion agencies around the world (Wells and Wint 1990). It represents a rational targeting of effort to maximise the results from correcting market deficiencies. Given this sensible redirection of program effort and keeping in mind the need to focus on measurable outcomes, a restatement of the IPFP's first objective to reflect this seems appropriate.

Currently, the objective's focus is manufacturing and services. This focus appears needlessly narrow. In practice IPFP staff react to inquiries concerning other sectors — and have delivered a number of successes outside manufacturing and services. If investment commissioners identify that a firm-specific information deficiency is inhibiting FDI in Australia and it is worthwhile to Australia to overcome it, they try to do so regardless of the sector the firm is in. The BIE considers this legitimate opportunism should be recognised in the objective. Should information deficiencies be most prevalent in manufacturing and services those sectors should still be given priority, but other sectors or interests should not be excluded.

As a final (and minor) comment on the first objective, it seems appropriate to specify the foreign investment as direct investment — as opposed to portfolio investment.

> Correcting for deficiencies in the knowledge market among firms likely to invest in Australia is still the fundamental rationale for the IPFP. The aim of doing so is to induce them to locate some of their FDI in Australia. The focus of the program has moved towards targeting specific firms and decision makers. The BIE considers the program's objectives should reflect this. Accordingly, it recommends the first objective be revised along the lines of:
>
> *Promote Australia as a location for direct investment to those firms with potential to invest in Australia by overcoming knowledge deficiencies at the firm level in particular, having regard to Australia's competitive strengths and with an emphasis on manufacturing and services projects.*

6.3.2 Objective 2

The transfer of technology, which is emphasised in the second objective, is very important. After assessing the potential benefits of the IPFP, the BIE considers a major source of gains from the IPFP is the spillover of technology (broadly defined).

However, the emphasis on technology transfer appears difficult to translate into practice. One difficulty is the objective does not make clear whether it refers to compensated transfers (where the benefits accrue to the investor) or technology spillovers in the 'transfer of technology'. The whole concept of emphasising technology runs into some practical difficulties. How is it possible to identify the benefits of technology transfers before a project is fully defined, before its type and size is known, before the details are finalised, the technologies known, or even before where its final location in Australia is known? How then should the IPFP encourage the transfer of technology? The investing firms themselves do not always have a good idea of what technology transfers may occur, or their value. How can investment commissioners be expected to judge what they may be?

In the face of such uncertainty, field staff often resort to proxies for potential benefits in this area. This suggests that to better pursue this element of the objective some operational guidelines are needed to assist investment commissioners' selection of target companies. Such guidelines may be based on, for example, selecting firms' on their record for innovative or leading edge management practices or their standing in their industry for innovative or best practice technology. The BIE has not suggested what such guidelines should be. It considers they would best be developed by IPFP staff in the light of the information and operational exigencies of the program.

Operational guidelines should be developed for targeting firms that are designed to improve the likelihood and value of technology transfers (broadly defined) from any ensuing projects.

6.3.3 Additional objective

A development of great relevance to the IPFP has been the government's change in emphasis on investment policy. Of particular relevance is the establishment of bodies to advise the government on investment matters — such as the National Investment Council (NIC) and the National Board of Industry, Trade and Investment (NBITI) — and their links with the program.

In response to the IPFP's evolving relationship with other arms of government (for example, NIC and NBITI) it is apparent from discussions with program staff that it now operates with an added objective. This is:

- to identify systemic and specific impediments to investment in Australia, based on its activities, and advise the Commonwealth government of any such impediments.

Providing 'feedback' is sufficiently important to an objective in its own right and is consistent with the government's commitment to continuous improvement. It is good management to feed knowledge gained from the IPFP's activities into government decision making. Doing so can help to create and maintain a consistent and coherent investment policy — one of the most effective means a country can have to attract investment (SRI International-Washington 1984).

The IPFP operates under the aegis of the NIC, which has the role of advising the Commonwealth government on impediments to investment growth. In addition, council members are becoming increasingly involved in supporting the IPFP's major investment promotion exercises. Accordingly, pursuing this additional objective is totally consistent with IPFP's responsibility to the council.

The IPFP also reports to the NBITI, which is charged with developing and pursuing agreed strategies to address trade, investment and industry development issues. Again, the added objective is consistent with its responsibility to NBITI.

Further, the IPFP advises the Ministerial Council on Industry, Technology and Regional Development on investment promotion and facilitation issues. Once more, this objective is consistent with this responsibility.

It is important for lessons to be internalised if the government's investment policies are to become more effective over time or benefit from the experience gained from a program's operations. Existing IPFP relationships with other government bodies clearly recognise this. It seems reasonable to spell out what is expected of the IPFP in a specific objective.

The DIST arm of the IPFP is also working to enhance links with other areas of government whose activities concern investment promotion. The BIE considers this is an operational outgrowth of the added objective. As such, it considers this is more of a means to an end than an objective in its own right.

The BIE considers providing feedback to government for input to decision making is sufficiently important to make it an objective in its own right, rather than a spinoff of normal operations. Accordingly, the BIE recommends adding a subsidiary objective to the existing objectives of the IPFP along the lines of:

> *Identify systemic and specific impediments to investment in Australia, based on its activities, and advise government of any such impediments*

6.4 Concluding comments

The outcomes of the IPFP have provided sufficient grounds to believe the program has met its current objectives.

Two objectives, however, warrant changing. This reflects in part the evolution of the program and its more specific targeting of firms. It also reflects the difficulty in measuring the performance of the program against one of its objectives and, thus, in assessing how effective the program really is. The reference to technology transfer in the second objective requires clarification on what type of technology is envisaged (compensated or spillover). In view of the importance of technology transfer as a benefit accruing from FDI, the objective needs to be supported by operational guidelines to improve the likelihood of gains from this source.

Finally, in view of the IPFP's evolving relationship with other arms and bodies of government an additional objective to acknowledge its role in providing feedback to investment policy makers based on its experience appears warranted.

7 Benefits and costs of the program

The BIE estimated in chapter 5 that over the past three financial years, the IPFP had probably induced an average (conservative) of some A$235 million in FDI per year. Whether this induced FDI has been beneficial and the extent of any benefit depends on its economywide impact. Assistance given to one firm or industry comes partly or completely at the expense of other industries. The IPFP is no exception. Assistance given under the IPFP can impose costs on firms not associated with the IPFP. This can happen in a variety of ways.

- Firms investing in Australia as a consequence of the operations of the IPFP compete in the same factor markets as firms already in Australia. IPFP–induced firms may bid up the prices of scarce resources (such as skilled labour) and make these factors more expensive for existing domestic firms. This may make existing firms less profitable and reduce the level of economic activity undertaken by them.
- Taxes may be imposed on other industries to raise funds to run the IPFP. These taxes can prove to be a disincentive for all industries, lowering the employment and economic activity of industries that do not receive IPFP assistance.
- The outcome of programs such as the IPFP can have adverse exchange rate effects. For example, if new investment comes to Australia because of the IPFP, the owners of this investment need to purchase Australian dollars. This will raise the price of Australian dollars, making imports cheaper and exports more expensive. This can cause a deterioration in the current account and make export businesses less profitable. The opposite effect will occur when profits from the foreign owned investment are repatriated by the investor.

All of these effects can act to displace or 'crowd out' domestic investment in Australia and, hence, reduce the benefits (including employment, trade and taxation) to Australia from IPFP-induced investment.

The extent to which IPFP-induced investment displaces domestic investment depends on the period in question and the level of any excess supply of factors of production. Two extreme positions can be identified. The first is that extra economic activity induced by the program's FDI is *wholly* in addition to the level of economic activity that would have prevailed in its absence. This is known as the 'zero crowding out' scenario.[1] The second is that the extra economic activity induced by the IPFP is fully

[1] An extreme version of this proposition is that the increased FDI increases economic activity by more than the increase in FDI through multiplier effects. Full action of the multiplier is tantamount to assuming that factors of production are available at constant marginal cost. In turn, this implies no factor is available in fixed supply or that factor inputs can be costlessly substituted for each other indefinitely.

at the expense of other activities. This can be regarded as the 'full crowding out' scenario. This can occur when the inputs to economic activity are in limited supply. In this case, the use of inputs by one activity (IPFP-induced investment) means that these inputs are not available for other industries and, hence, the activities of other industries are displaced.

The difference between these two extremes is the extent to which factors are in limited supply. Clearly some factors are in limited supply and thus the zero crowding out hypothesis is not correct. Nonetheless, it is widely accepted that exogenous increases in foreign investment will increase economic activity in the short term. In addition to any increase in short term economic activity arising from FDI induced by the program, there will be an increase in activity generated by spending on the IPFP itself. The program may also bring forward some investment that would otherwise have occurred at a later date.

Even if the additional FDI induced by the program is sustained, its effects are likely to become progressively weaker in the absence of any associated improvement in microeconomic performance. The additional investment will draw resources away from other potential investment opportunities and other productive activities. It will tend to raise the prices of resources in relatively fixed supply. It may also place upward pressure on the exchange rate, squeezing exporters generally and increasing price competition from importers.

For all of these reasons, it is generally accepted that there is little scope for a permanent increase in economic activity from exogenous increases in FDI *per se* (or government spending) without underlying improvements in economic performance. In the long run the level of economic activity is determined by underlying factors such as the size and quality of the capital stock, population levels, labour force participation rates and skill levels, and technology.

This means IPFP-induced FDI can increase economic activity in the long run only if it improves microeconomic performance. This could happen if the FDI adds to the aggregate level and quality of capital stocks, or is more productive (for the economy as a whole) than any investment it displaces. It could also happen if the FDI has substantial spillover benefits that are not outweighed by negative external effects. These possibilities are discussed in subsequent sections.

The question of whether FDI attracted under the program adds to Australia's capital stock is addressed in section 7.1, and its impact on employment is considered in section 7.2. The likely impact of that FDI on the current account and exchange rates is discussed in section 7.3. The impact of the program on Australia's productive capacity through technology transfer and spillovers is addressed in section 7.4. Possible consequences for taxation revenue are discussed in section 7.5. Costs of the IPFP and the overall net benefit of FDI are considered in sections 7.6 and 7.7 respectively. In section 7.8, various incentives available to individual firms from Commonwealth, state and territory governments are considered. Such incentives, while not part of the

IPFP, also seek to encourage investment in Australia and hence are closely related to the program. Concluding comments are provided in section 7.9.

7.1 Impact on capital stock

Although FDI (by definition) involves a financial inflow from foreigners, it is not clear to what extent such FDI provides a net increase in the capital stock of Australia.

To the extent IPFP-induced FDI involves a transfer of ownership with no other changes, Australia's stock of physical capital remains unchanged. (Austrade's submission indicated some 12 per cent of IPFP projects are classified as acquisitions.) The consideration paid by foreigners to acquire the Australian assets may be used by Australians to acquire foreign owned assets in Australia or overseas, or used to repay some foreign debt. It is also possible that the consideration may be consumed, thus reducing the capital stock owned by Australians.

Much FDI, however, involves investment in new physical capital stock. For example, since 1992 about 33 per cent of program projects involve greenfield developments. But by investing in new capital, foreigners may be crowding out Australian investment by denying investment opportunities to Australians. Alternatively, such physical capital investment may complement the activities of Australian firms by introducing an Australian partner (or Australian associates) to different technologies and new markets. However, in either case the cost of any factor inputs that are essentially in limited supply may rise, crowding out other investment.

In the long term, the volume of capital stock depends on its user cost relative to the prices of other factors of production such as labour, and the efficiency of additional capital. In a deregulated financial market, the user cost of capital reflects the rates of return to other real and financial assets and the riskiness of foreign investment in Australian business fixed capital. In the long run the profit maximising stock of business fixed capital is that at which the marginal product of any extra capital equals its user cost.

There are two ways in which the IPFP can generate a larger capital stock. First, the IPFP can reduce the risk for foreigners investing in Australian businesses. This assumes that the user cost of Australian capital to foreigners differs from its user cost to Australians. The foreign owned capital stock would expand until its marginal product had declined sufficiently to equal the new, lower user cost to foreigners. The larger overall capital stock (foreign and Australian owned) would contribute to increased production and income.

Second, the IPFP can make additional capital more efficient by complementing the existing Australian capital stock with new technology or through substantial uncompensated spillover benefits to Australians. This would create an incentive to expand the capital stock because the return to capital at the margin would be raised above its user cost. The capital stock would expand until its marginal product declined to again equal its user cost. In addition, there would be further gains in income from having a more efficient (or better quality) stock of capital (discussed in section 7.4).

The importance of the quality of the capital stock in Australia has been noted by, for example, the OECD (1994, p.98):

> In Australia's case, while the investment to GDP ratio is quite high by OECD standards there is scope to improve the quality of investment and the efficiency with which the capital stock is used, especially public infrastructure.

The small size of the induced FDI compared with the total flow of FDI into Australia suggests that any long run effect on the volume of the capital stock is likely to be small.

The BIE considers it likely that there has been a *short term* increase in economic activity resulting from an IPFP-induced increase in FDI. IPFP-induced FDI is not likely to lead to a significantly expanded volume of Australian owned capital stock in the long run. However, IPFP-induced FDI may increase the quality of Australia's capital stock by introducing better methods of production or better matching of that stock with international market conditions.

7.2 Impact on employment

An often claimed advantage of FDI is increased employment. The Austrade submission, for example, noted that it has identified about 4500 new jobs as being directly associated with IPFP projects over the three years from 1992-93 to 1994-95.

Responses from the BIE's survey of program firms indicated that this number is an accurate reflection of firms' estimates of new jobs for those projects for which Austrade has estimates. However, as the Austrade database records employment for only about 30 per cent of projects, this number significantly understates the total. This is also borne out by the BIE survey of firms. From some 70 responses on around 190 possible projects, the BIE survey recorded additional employment of just over 5500 jobs over the three years.

Employment data for program firms from the Austrade data and BIE survey are extremely limited, but it is useful to consider the possible order of magnitude of employment provided by program firms. One estimate could be obtained by simply extrapolating from the BIE survey results. This would suggest the gross total number of jobs directly associated with all IPFP projects to the end of 1994-95 was about 13 500 jobs. This estimate could be either too high or too low depending on the validity of its underlying assumptions. For example, this assumes that firms without employment data have similar employment-providing characteristics to those firms with employment data. Unfortunately there is little independent information with which to test this assumption.

A more realistic measure of the net employment impact of the IPFP, however, requires making various adjustments to any claimed gross total of jobs created — adjusting for the role of the IPFP in inducing FDI to Australia, the likelihood of a project creating 'new' jobs, and the economywide effect of any project. To set a lower bound (assuming that the data provided by firms is accurate), the BIE assumed that the number of jobs created by non-respondents was zero. On this highly conservative basis, it is estimated that over the last three financial years that at least 300 new jobs each year were directly associated with the IPFP.[2]

Overall, the BIE considers that in view of Australia's recent cyclic and, in some cases, persistently high regional unemployment, there would be some short run increase in the level of employment resulting from IPFP-induced FDI. Using the conservative figure of Austrade's reported 4500 new jobs as a basis, the BIE estimates that over the past three financial years, about 300 new jobs each year were directly associated with IPFP projects. This figure was arrived at by averaging the Austrade estimate of new jobs over the period and applying to it the same factor used to adjust total program FDI to that likely to have been induced by the program (that is, one-third). The resultant yearly average of 500 new jobs was then adjusted to take account of the likelihood of the projects generating new jobs rather than changing paymasters (as with greenfields projects versus joint ventures or acquisitions).[3]

In addition to new jobs each year associated with IPFP projects there would be some one-off employment increases associated with the construction phase of projects and some initial employment stimulated by multiplier effects. To the extent the jobs associated with IPFP projects were filled by people previously claiming unemployment benefits, the Commonwealth would achieve a reduction in unemployment payments and an increase in income tax paid.

It must be remembered, however, that these jobs most likely represent a short term increase in total employment — except, perhaps, in regions of chronic high unemployment. IPFP-induced investment requires labour which may be drawn from other industries and from those not employed. In the short run, the increased demand for labour may occur when there is no substantial upward pressure on wages (during a period of high unemployment, for example). In this case, the IPFP-induced investment may not cause wage increases at the expense of other businesses, and thus the IPFP-induced investment will increase employment levels. Over the full period of an economic cycle however, this may not be the case, since there will be times when

2 Around 40 per cent of all IPFP projects are either acquisitions or joint ventures, and thus unlikely to create new employment.

3 If it is assumed that IPFP projects for which Austrade has no employment estimates contribute proportionately to creating new jobs, up to 900 new jobs a year may be attributed to IPFP projects.

labour (particularly some forms of skilled labour) is in short supply. In such periods the presence of foreign owned firms demanding Australian (particularly skilled) labour will make it more difficult for Australian firms to compete. In the long run, this new economic activity will largely displace or crowd out other activity throughout the economy. Hence the long run result may involve little effect on aggregate employment levels.

To estimate the duration of any IPFP-induced impact on employment from IPFP projects, the BIE reviewed simulations from some of the main economic models of the Australian economy (for example, G-cubed, Murphy and TRYM discussed in Hargreaves 1994). The results of these models suggest that, economywide, an increase in jobs would be largely wound back to equilibrium levels over three to five years at the outside.

Long term reductions in unemployment as a result of increased FDI are unlikely. This is because in the long run the level of unemployment mainly reflects underlying microeconomic conditions in the labour market. Unless the induced FDI affects these underlying conditions it is unlikely to have any long run employment consequences.

Another issue relevant to the employment impact is the ‘quality’ of jobs directly arising from FDI under the program. The IPFP does not specifically collect information on this. However, the literature leans to endorsing FDI as a source of ‘quality’ jobs. For example, UNCTAD (1994b) found that jobs associated with FDI are generally higher skilled, more productive and are higher paid than jobs on average. Some support for this was found by Allen Consulting Group (1994) and the Australian Financial Centre Committee (1992) for jobs in regional headquarters. Both of those studies found the average salary for people working in regional headquarters was at least twice that of average earnings (see UNCTAD 1994b).

As a rough indicator of job quality, the BIE extracted firms’ claims as to the proportion of skilled jobs in total employment from responses to its survey of program firms. Of the total reported likely employment, 74 per cent of jobs were listed as skilled. Data restrictions deny more disaggregated analysis, such as comparing projects against ABS data for specific industries.

7.3 Impact on external balance and exchange rates

Supporters of the IPFP frequently allude to its favourable impact on Australia’s balance of payments — as IPFP projects add to exports or replace imports.

The Austrade submission, for example, claims IPFP projects will add some A$675 million a year to Australia’s annual exports. However, Austrade notes that this figure considerably understates the impact of the program, as project estimates for exports are often not available.

Austrade's database of projects to end 1994-95 contains export estimates for only 22 of 187 projects (12 per cent). A further 18 projects were recorded as generating exports, but the database had no estimates of their value. So, just 40 projects — or 22 per cent — registered an export impact. This is in contrast to the responses to an 'export' question in the BIE's survey of program firms. Asked about the expected destination of sales by their project, about 70 per cent of firms stated their project will have an impact on exports. As the BIE has no reason to believe that the survey was biased toward export oriented firms, the program's reported export impact appears to be understated.

However, while a simple adjustment to take account of the under reporting of export impact would yield an impressively big number, the result would still be misleading. To begin with, only about a third of projects are likely to have been induced to Australia as a consequence of the IPFP. Thus any gross impact of the IPFP on exports should be wound back by two-thirds. And some IPFP projects (about 12 per cent) are acquisitions — changing owners rather than necessarily setting up new exporting ventures. Taking this into account further reduces the gross export impact.

IPFP projects are also claimed to benefit the trade balance by replacing imports. Many projects will replace current imports with local production. BIE meetings with program firms provided ample evidence of significant import replacement. Companies from Singapore and the United States, for example, indicated a major part of their strategy was to supplant existing imports. Such an impact is essentially no different in its effect on Australia's balance of trade than creating an equivalent value of exports. The performance indicators the IPFP collects do not include the value of import replacement and the BIE was unable to quantify any overall impact on imports.

Assessing the impact of IPFP-induced FDI on Australia's external balance is, however, more complicated than just considering exports or imports replaced by a project. It must also take account of the scope for IPFP-induced FDI to displace existing export and import replacing activity. It should take account of the impact of any imports of capital equipment to establish IPFP projects. And it should consider the impact of the flow (and source) of capital to finance any project and subsequent remittances, and the impact of IPFP project exports on the demand for Australia's currency and, thus, its foreign exchange rates.

As noted in the discussion on employment effects, in the long run the IPFP-induced activity is likely to largely displace other activity throughout the economy. Because some of this would contribute to exports or import replacement, the net impact of the IPFP, is the trade balance in an economywide sense is likely to be well below what the gross impact would otherwise suggest.

In addition to replacing imports, projects set up under the aegis of the IPFP also have the potential to add to imports. In the construction phase of a project, for example, it is likely that much of the capital equipment will be imported.

Capital inflow associated with FDI induced by the IPFP will also have current account and exchange rate effects. Increased capital inflow induced by the IPFP will cause the Australian dollar to appreciate. This will make imports cheaper and exports more expensive, raising Australia's willingness to import and reducing the profitability of export industries. Thus, in the short term there will be a deterioration in the current account. These effects will be reversed when foreigners repatriate the profits from FDI. The repatriation of the profits will cause the Australian dollar to depreciate and, following the above logic, will cause the deficit on the current account to fall.

The effects of IPFP-induced FDI on the exchange rate could be expected to be minuscule, perhaps a small fraction of 1 per cent. This is likely as the level of FDI induced by the IPFP was only about A$235 million a year over the past three financial years and, as an example, the total non-official annual inflow of foreign investment into Australia in 1993-94 was A$22.5 billion (ABS 1995). However, as these small effects will be felt economywide, the IPFP-induced FDI may still have a measurable effect on the current account. The BIE notes that the major long term determinant of Australia's current account is not the prevalence or otherwise of exporting industries, but the willingness of Australians to save to cover their own consumption and investment.

To estimate the likely magnitude of these broader effects of IPFP-induced FDI on the current account, the BIE reviewed simulations from the earlier mentioned models of the Australian economy. The results were consistent with a small appreciation of the exchange rate and a short term rise (but no significant long term change) in the current account deficit. Accordingly, the BIE has not attached a value to the impact of the IPFP on external balance.

7.4 Impact on productive capacity

IPFP-induced foreign investment projects can improve Australia's productive capacity if they:

- employ better production or management techniques than those used by any displaced Australian investment; and/or
- have better access to markets than the owners of any Australian investment displaced.

While these are necessary conditions for net gains to the Australian economy, they are not sufficient. To the extent that the FDI is more profitable because it is more productive than the displaced investment, the benefits of Australia's improved productivity will accrue to the project's foreign owners and not to Australians. Australians will benefit only if in the long run they capture some of the benefits of the FDI induced by the IPFP. This can occur through the increase in government revenue from taxes paid by the foreign firms (discussed in section 7.5) or through the foreign firms passing uncompensated benefits to Australian firms.

The BIE notes that it is likely that foreign firms successfully locating in Australia will have productive advantages over Australian firms. In chapter 2 it was noted that to prosper in a foreign jurisdiction a firm generally needs some ‘ownership advantages’ to outweigh the ‘home country’ advantages of domestic firms. These ownership advantages often take the form of better technology or production techniques. These advantages give a *prima facie* case for believing that the foreign owned firm will be more productive than domestic firms.

Some evidence of the use of advanced technology and management techniques by foreign firms will now be presented and this will be followed by a discussion of spillover benefits (including market access).

7.4.1 Technology and management

A common assertion made to the BIE in, for example, submissions and interviews was the IPFP benefited Australia because of the tendency of FDI to increase the access of Australians to new technology and management techniques.

Improved technology and know-how underpins economic growth. It provides benefits by introducing new or improved products and services, or by lowering the resource costs of producing existing goods and services. Technology and know-how can come in many forms — in big purchase items such as capital equipment and in gradual, almost imperceptible ways through, for example, the introduction of improved practices on the factory-floor or in management.

There are many ways a country such as Australia can gain technology from overseas: by licensing agreements, through reverse engineering, from employing overseas executives, and from disseminating information through specialist journals and other media, for example. However, there is evidence to suggest that FDI is one of the main conduits for acquiring new technology. The importance of links with multinational enterprises for technology transfers and the role of the IPFP in facilitating such transfers was discussed in chapter 6. Many overseas investing firms are large and successful and have ownership advantages based on their R&D and general know-how. Moreover, they appear to prefer to transfer their technology abroad to affiliates rather than to less closely related firms. Caves, Crookell and Killing (1983) argue a reason for this is that the transfer of licences between independent firms is difficult to negotiate and enforce. In addition, Vernon (1982) found international investment is closely associated with diminishing lags between the introduction of an innovation in the United States and its adoption in other countries.

To what extent, however, does technology transfer from foreign firms benefit Australians? The investing firm has an incentive to maintain proprietary rights over the technology it owns. If successful, the bulk of the benefits of the technology will accrue to foreigners when repatriated in the form of royalties and dividends. If the firm maintains complete ownership, the process or product innovation may still benefit Australians if, for example, access is gained to the foreign technology or management techniques without having to compensate the foreigners, or when the compensation paid to foreigners is lower than the value of the technology transfer to Australians. Uncompensated technology transfer can happen if the investing firm has no, or imperfect, property rights over its technology and know-how. In some instances this will be because the cost of writing contracts exceeds the benefit to the firm. In other instances the task is simply not practical, for example, for contracts covering successful human management practices. The benefits from uncompensated technology transfers will now be discussed as part of the spillover benefits of IPFP-induced FDI.

7.4.2 Spillovers

A number of overseas studies have noted evidence of positive spillovers associated with FDI. For example, several studies have documented the positive effects of FDI on the quality of domestic competition and the resulting improvements in the performance of domestic companies (Reserve Bank of Australia 1994, Graham and Krugman 1993, United Nations 1993). Mansfield and Romeo (1980), in a study of United States based multinational enterprises, estimated that FDI undertaken by these firms speeds the rate at which technology ‘leaks’ to competitor firms.

Studies such as these, together with evidence referred to in chapter 6, provide convincing grounds for believing FDI induced under the IPFP has been instrumental in generating spillover benefits such as uncompensated technology transfer and/or better access to markets. And, in the process, this has raised the level of economic activity in both the short and long run.

Although the literature and the evidence collected by the BIE suggest the IPFP has generated spillover benefits, their likely magnitude is difficult to estimate. Estimates of the social returns to research and development (R&D) provide the only strong quantitative evidence for significant knowledge spillovers between firms. Analysts have consistently found that R&D in one firm or industry raises the productivity of other firms or industries (for a recent review of the literature in this area, see Griliches 1994). Econometric studies measuring social returns to R&D suggest very high values for R&D spillover benefits — with a ratio of social to private returns in the United States of the order of 2 to 1. Estimates for the difference between social and private returns for R&D in Canada were on average 50 per cent lower, but still considerable (BIE 1994). However, the IPFP is unlikely to result in spillover benefits of these magnitudes as R&D by its nature is ‘spillover intensive’, and would represent a small portion of any FDI project in any case.

Although the literature indicates spillovers from technology and know-how transfers may be significant, it remains inconclusive on the size of those benefits.

In addition to technology and know-how spillovers there are spillovers that facilitate access to foreign markets for domestic firms (see chapter 6). Such spillovers provide the potential for Australian firms to increase production with associated economies of scale and capture market premiums on expanded markets overseas. As with technology spillovers, there are no conclusive studies on the likely size of these benefits. Spillovers also occur through FDI's role in integrating national economies to form an increasingly internationalised or world economy.

To date there is no accessible Australian research that attempts to measure the full extent of uncompensated technology transfers and market access spillovers that occur from FDI in Australia. As such spillovers appear to be a major source of potential benefits from the IPFP, this is an area in which more work needs to be done.

The BIE considers that positive spillovers are likely to constitute the main benefits to Australia associated with inbound foreign investment induced by the IPFP. As such spillovers appear to be a major source of potential benefits from the IPFP, this is an area in which more work needs to be done.

7.5 Impact on tax revenue

It has been suggested that a major benefit to the host country from FDI is its first claim on profits of the foreign investing firm (Caves 1982). If a foreign firm invests (say) A$1 million, it expects to get a stream of profits at least equal to that amount plus a return commensurate with the risk being taken. Thus, the present value of the taxation revenue from the investment will be the effective corporate tax rate applied to a base of A$1 million plus the present value of the tax on any above normal returns earned over the lifetime of the investment.[4] The effective tax rate will vary with the life of the asset, tax deductible depreciation allowances, the discount rate and foreign tax credits among other factors.

However, the above comments relate to only first round or *gross* effects; they need substantial modification when more general second round and later effects are taken into account. Calculating the *net* effect is complicated.

To the extent that foreign investment displaces other economic investment, net corporate taxation revenue will be lower than the gross measure described above. In

4 The tax is not actually levied on the A$1 million actually invested. Rather, income tax is levied on the returns to that investment. If the investment earns normal returns, applying the tax to the investment has the same present value as applying the tax to the normal returns on A$1million. If the investment earns less than normal or more than normal returns this will affect the present value of the tax take.

other words, the net corporate taxation revenue is influenced by two effects — one positive (the direct tax paid by foreign investors) and one negative (tax lost due to displacement). Moreover, to the extent that the displaced activity is owned by Australian residents with marginal tax rates higher than the company tax rate, the negative effect is magnified as Australian residents will receive the residual after-tax profits, whereas foreigners will ultimately receive the residual after-tax profits from the positive corporate tax effect. Alternatively, if the investment displaced is owned by Australians with marginal tax rates lower than the company tax rate, FDI may increase the tax revenue.[5]

The possibility that FDI can erode the tax base is reinforced when possibilities of tax avoidance and evasion additional to those available to Australian owned firms are taken into account. Residents of Australia are taxed on their worldwide income at marginal rates, while non-residents are taxed on their Australian income, with differences in rates reflecting the provisions of Double Tax Agreements. Foreign investing firms potentially have avenues for tax evasion through transfer pricing. The *Income Tax Assessment Act 1936* contains transfer pricing provisions that limit the extent to which transfer pricing can be used by firms with international operations to avoid Australian tax.

Another potentially tax effective option available only to foreign owned firms is 'thin capitalisation'. Thin capitalisation describes the situation when a foreign owned firm is capitalised from the foreign parent company using subordinated debt rather than equity. For purposes other than tax, equity from the parent and subordinated debt from the parent are identical. Using either finance method the parent is entitled to the residual profits of the Australian subsidiary. However, the tax effect of equity differs substantially from the tax effect of subordinated debt. The cash flows on debt (that is, interest) are deductible in Australia and assessable in the foreign jurisdiction. If profits repatriated to the parent are classified as 'interest', then Australian company tax is not paid on these profits. Interest withholding tax is, however, liable at 10 per cent on the gross interest (rather than the marginal or company rate on a net basis), which is less than the 36 per cent company tax rate). The *Income Tax Assessment Act* contains thin

5 Australian resident shareholders will pay additional tax on investment in Australian owned companies only if their marginal tax rate is above the corporate tax rate. This can be illustrated by comparing tax paid on investment income when the taxpayer is a top marginal tax rate Australian taxpayer with tax paid when the taxpayer is a foreign entity. Assume that both companies earn $100 pre-tax profits. In both cases A$36 tax is paid, and so the company has A$64 post-tax dividends and A$36 of franking credits to distribute. If the shareholder is a foreigner the tax paid in Australia is A$36. If the shareholder is an Australian facing the top marginal tax rate he or she will declare A$100 income (both the dividend and the franking credit are assessable), and will be assessed for A$48.50 tax (the top marginal rate is 48.5 per cent including Medicare levy). The taxpayer will claim a credit for A$36, andwill thus owe an additional A$12.50 in tax. If, however, the shareholder is a taxpayer with a marginal rate less than 36 per cent (for example, a superannuation fund) then it is possible that the franking credit will offset taxes due elsewhere. In this case the foreign direct investor pays more tax than the Australian shareholder.

capitalisation rules that restrict the ability of foreign companies to repatriate all profits as interest rather than dividends.

It may also be argued that other taxes paid (including indirect and payroll taxes) by the foreign firm will be of benefit to Australians. However, to the extent that the foreign investment displaced existing economic activity, increased sales, payroll and other taxes paid by the foreign investor will be more or less offset by diminished tax revenue from the displaced activities.

However, as already noted, it is likely that FDI will be more productive than the industry it displaces. If this is the case economic activity (and hence the tax base) will expand in response to increased FDI. FDI may thus increase tax revenue even though it crowds out domestically owned business.

Given that there are circumstances where FDI increases taxation revenue (such as when there is incomplete crowding out, or where the FDI is more productive than the industry it displaces) and circumstances where FDI reduces taxation revenue (such as when FDI displaces industry owned by taxpayers with marginal tax rates greater than the company rate or when the foreign owned company avails itself of tax avoidance opportunities not available to domestic firms), the BIE is not convinced that FDI necessarily results in net taxation benefits to Australia. Thus, in evaluating whether the IPFP offers net benefits, in the absence of more detailed analysis the BIE considers it appropriate to take a conservative approach and set any taxation benefits at zero.

7.6 Costs

The most obvious costs associated with the IPFP are the Commonwealth, state and territory program expenditures (adjusted for on-costs and the marginal excess burden — or welfare loss — from the taxes raised to pay for any expenditures). These costs are presented in table 7.1. In addition there are potential costs such as the leakage of technology from Australian firms to multinationals and any negative spillovers (such as environmental pollution) associated with IPFP-induced FDI.

7.6.1 Directly attributed costs

The BIE estimates that over the three financial years 1992-93 to 1994-95, the Commonwealth and state and territory expenditure on the IPFP averaged about A$12.6 million a year (table 7.1).

Table 7.1 IPFP-related spending: 1992-93 to 1994-95

	1992-93	*1993-94*	*1994-95*	*Annual average*
	A$m	*A$m*	*A$m*	*A$m*
Commonwealth expenditure on IPFP				
Direct				
Program administration and operations	na	na	na	6.5
Subsidies for feasibility studies	na	na	na	0.2
Subtotal	**6.4**	**4.5**	**9.3**	**6.7**
Indirect (IPFP's share of common costs[a])				
DIST	0.7	2.0	2.1	1.6
Austrade	2.1	1.4	3.0	2.2
Subtotal	**2.8**	**3.4**	**5.1**	**3.8**
State expenditure on IPFP[b]				
Program administration and operations	na	na	na	na
Subsidies for feasibility studies	na	na	na	na
Subtotal	**1.8**	**1.6**	**2.9**	**2.1**
Estimated total expenditure on IPFP	**11.0**	**9.5**	**17.3**	**12.6**
Adjusted for welfare loss[c]				**16.4**

a Common costs refer to IPFP's share of DIST's and Austrade's overheads (that is, any costs not separately charged to individual programs). **b** State and territory government agencies were unable to separately identity expenditure on investment promotion. These expenditure figures have been estimated by the BIE. **c** The BIE has taken a middle range estimate for the marginal excess burden of 30 per cent. **na** Not available.
Sources: Compiled from information supplied by Austrade, the Australian Taxation Office, DIST and state and territory investment promotion agencies and BIE estimates.

A fundamental cost of the program is associated with raising revenue through taxation. Looked at in isolation (in partial equilibrium) the imposition of a tax involves a loss to society in that it drives a 'wedge' between demand (people's willingness to pay) and the value of the resources needed to produce the output. This produces what is commonly referred to as the 'deadweight loss' of taxation.

The social cost of raising an extra dollar of taxation revenue is equal to the dollar plus the associated deadweight loss. This is known as the marginal excess burden (MEB). Findlay and Jones (1982) made empirical estimates of the marginal excess burden for Australia. Using these estimates, in 1991, the BIE (1991) assessed that the likely marginal excess burden for Australia, given the changes to marginal income tax rates introduced after Findlay and Jones' study was between 0.15 and 0.50. Similar studies for other countries suggest marginal excess burdens of around 0.24 for Canada and between 0.17 and 0.56 for the United States (Ballard, Shoven and Whalley 1985; Campbell 1975). A 'mid-range' MEB of 0.3 has been adopted for the purposes of this evaluation.

After adjusting the estimated total IPFP expenditure for the marginal excess burden of taxation, this gives an estimated economic cost of about A$16.4 million. This does not include one-off RHQ and state incentives and negative spillovers, which are discussed later. Sensitivity analysis on the value of the assumed marginal excess burden in the range of 0.15 to 0.60 shows that variations have little impact on the analysis of net benefits following in section 7.7.

7.6.2 Indirect attributed costs

The indirect costs of the program can be separated into three categories:

- intangible costs such as possible loss of technology and know-how overseas;
- discrimination against Australian suppliers; and
- other negative spillover effects such as environmental pollution.

Leakage of technology and know-how overseas

FDI induced by the IPFP may result in technology and know-how transfers from Australia to the foreign investing firm's country of origin. Some of these transfers may reflect conscious location decisions by foreign firms. Japanese firms, for example, appear to locate in Silicon Valley in California to gain access to the technology concentrated in firms there (Teece 1991). However, much of the outflow of technology and know-how will not be the result of conscious location decisions. It will simply reflect the inevitable learning process of operating in a new environment and gaining access to new products and ways of operating.

To the extent that the use of technology is completely controlled by property rights, there is an offsetting benefit in that the Australian supplier receives payment. However, for reasons outlined in the earlier discussion of technology transfer benefits, there is good reason to suppose that property rights are far from perfect. It follows that at least in some instances, the IPFP will result in the transfer of technology from Australia, without any offsetting income benefit to Australians.

How important are reverse technology and know-how transfers likely to be? First, the 'ownership advantages theory' of the foreign investing firm implies that it will often have technology and know-how advantages in its host environment. Such firms are likely to be overwhelmingly technology donors rather than recipients in their host country. Moreover, Australia, unlike the United States, is a net technology and know-how importer, rather than a net technology supplier. There are exceptions, such as broadacre grazing, some intensive agriculture activities, and mining and minerals processing. While Australia may not in general be a technology exporter in manufacturing and services, there are certainly industry segments where this is the case. For example, Australian expertise in biomedical production is well known.

The BIE is not aware of any studies that demonstrate outward technology flows as a result of inward FDI, nor has the issue been raised either in submissions or during discussions. On this basis, the BIE considers that technology flows from Australia are likely to be minimal.

Discrimination against Australian suppliers

Suggestions that foreign firms may unduly favour suppliers of their own nationality have been particularly prevalent in the United States in relation to Japanese investment.

Foreign investors are likely to have long term relationships with suppliers from their own countries. Thus they would be aware of the quality of the product or service being supplied in their domestic market whereas they are likely to have less knowledge, and therefore greater uncertainty, about host country suppliers. Moreover, if the cost of a service or product is small relative to the final product but component failure imposes a high cost, they may prefer to avoid the downside risk and continue dealing with their existing suppliers. It should also be noted that the less competitive the market, the less may be the immediate penalty to the foreign firm of a suboptimal choice of suppliers. That said, many international investors are global players. They may be reluctant to endanger global understandings and alliances by using smaller domestic suppliers, even where the domestic suppliers can supply the product or service at a better price and quality. Thus on *a priori* grounds, suggestions of discrimination are not without some credence.

Empirical evidence on the question of supplier discrimination centres on two questions: are foreign firms more inclined to import their inputs (especially from their own country of origin) than are domestic firms, other things being equal (especially controlling for possible industry differences); and do they tend to buy a disproportionate share of their inputs from domestically located firms owned by their own nationals? In relation to the available evidence for Japanese owned firms in the United States, Graham and Krugman (1995) conclude that, even after due allowance is made for other factors, Japanese firms do have a higher propensity to import than their United States counterparts.

The BIE is not aware of any studies on the existence or extent of supplier discrimination by foreign firms in Australia, let alone in relation to IPFP projects. The issue has not been raised in submissions received by the BIE or in the BIE's various discussions. Moreover, on the whole, supplier discrimination raises questions of equity rather than inefficiency costs to Australia *per se*. Accordingly, the BIE has placed the value of supplier discrimination costs at zero.

Other negative spillover effects

It is possible that there are some negative externalities associated with the IPFP. These could occur, for example, if a foreign direct investor is a producer of pollution and is attracted to Australia by lower environmental standards or concessionary treatment with respect to such standards. For Australia to be worse off, such an investor would need to either add to pollution and not compensate any 'losers' or displace local production that creates less pollution.

The evidence received by the BIE, however, gave no reason to suppose that the IPFP is attracting projects with known and large negative externalities.

7.7 Net benefit

The BIE does not have sufficient data to assess all the externalities associated with the program. A full benefit–cost analysis is thus not possible. Instead, the BIE has made an ‘on balance’ judgement that the benefits associated with the IPFP are likely to exceed the costs of running the program.

Over the past three financial years, the program is estimated to have induced an average of approximately A$235 million a year of additional FDI. In the same period, Commonwealth, state and territory expenditure on the program averaged about A$12.6 million a year. After adjusting for the marginal excess burden of taxation, this represents an economic cost of some A$16.4 million per year on average. On the basis of those costs, the benefits of the program exceed the costs if the present value of the net spillovers and other benefits from this FDI is more than A$16.4 million — that is, just under 7 per cent of the total value of the investment. Ignoring benefits from other sources, if it is conservatively assumed that the duration of spillover benefits is around three years, spillovers alone would need to be just over two per cent of the total value of the investment per year to meet this target. As the program also generates benefits from increasing employment in the short run, particularly in some areas of persistently high regional unemployment, the BIE considers the IPFP’s benefits are likely to exceed its economic costs.

> As long as every dollar of IPFP-induced FDI over the past three financial years has net spillover and other benefits of at least seven cents, the benefits of the program are estimated to exceed the costs of the program expenditure. The BIE considers this is a plausible outcome.

7.8 Other incentives targeting foreign direct investment

Various incentives are available to investors in IPFP-induced projects from Commonwealth, state and territory governments which, while not part of the program, also seek to encourage investment in Australia (see section 3.6.1). Such incentives — either to attract projects to Australia or to entice a project locating in Australia to go to one jurisdiction rather than another — are a matter of concern to the BIE.

At the Commonwealth level, these incentives are chiefly confined to the regional headquarters campaign. The incentives have the potential to overwhelm the costs associated with the IPFP. For example, in one case the Commonwealth offered a single firm an exemption from wholesale sales tax worth about A$30 million. This alone is more than the entire Commonwealth budget allocation for the IPFP for the past three financial years. Incentives of this scale clearly have the potential to overwhelm net benefits generated from the program. Moreover, it is not possible to forecast in advance the incidence of such incentives, which depend on the results of a case-by-case consideration of those projects.

Table 7.2 Regional headquarters incentives

	1992–93	*1993–94*	*1994–95*	*Average*
	A$m	*A$m*	*A$m*	*A$m*
Commonwealth incentives for RHQs[a]				
Sales tax exemption	np	np	35.95	27.0[b]
Deductibility of relocation expenses	np	np	0.00	6.0[c]
State investment-recruitment incentives		unknown		

a The Prime Minister announced these in February 1993. **b** Averaged over 18 months. **c** While this concession cost nothing in 1994-95, the Australian Taxation Office has estimated costs to be A$6 million in 1995-96 and 1996-97, and A$2 million in 1997-98. **np** Not applicable.
Sources: Compiled from information supplied by Austrade, Australian Tax Office and DIST.

The BIE received a number of comments suggesting that as the designated regional headquarters firms would not have come to Australia without the incentives, there is no revenue foregone. However, this reasoning ignores the potential for such FDI to displace domestic activity that does not have an exemption and that may, therefore, have paid an equivalent amount of tax. That is, the exemption can have a revenue cost. Further, it is possible that some tax subsidies are given to firms that would have invested in Australia anyway. In this case, there is a clear revenue cost and the revenue foregone is captured by the offshore owners of the investing firm, representing a wealth transfer from Australians to foreigners.

> Specific Commonwealth, state and territory incentives granted to individual firms to encourage investment in Australia are a matter of concern. Such incentives have the potential to overwhelm net benefits generated by the IPFP.

In view of the potential scale of any individual Commonwealth incentives and their uncertain incidence, it is important that the provision of any such benefits undergo a rigorous cost benefit analysis and that the process, and the costs, be transparent.

Under current arrangements, incentives given to regional headquarters primarily take the form of exemptions from wholesale sales tax on the import of second hand computer equipment and deductions for some relocation expenses. There are legislated guidelines for awarding RHQ status, and hence tax concessions, to firms (Income Tax Assessment Act 1936, Guidelines for the Determination of Regional Headquarters Companies No. 1 of 1994). Firms seeking RHQ status are currently assessed against these guidelines by the Treasurer on a case-by-case basis, and decisions on eligibility are open to appeal and scrutiny by the Parliament.[6] These guidelines are intended to ensure that net benefits accrue to Australia from any individually assisted project. The BIE is not in a position to determine whether these guidelines have been applied rigorously.

To end August 1995, only eight companies have availed themselves of the wholesale tax exemption. This compares with more than 60 regional headquarters which were established in Australia between that date and the launch of the regional headquarters campaign in 1993.

To the extent that the tax exemptions for eligible regional headquarters are subsidies, consideration could be given to converting those subsidies to a grants scheme to be administered by DIST. Advantages of a grants scheme are that grants are individually accountable and that outlays (in aggregate or on a per applicant basis) are relatively easily able to be capped. By comparison, the current tax subsidies have no pre-set limits and are not individually accountable due to the privacy of tax returns. Further, by shifting to a grants scheme rather than an entitlement based tax concession, the administering department would be responsible for any expansion in program costs beyond those envisaged by the Parliament in the budget process.

On the other hand, an advantage of tax subsidies is that, once the tax incentive structure has been set, firms can make decisions (and determine the resulting level of subsidy) without further bureaucratic interference. There is also a direct nexus between the amount of taxable activity undertaken and the amount of subsidy received.

A further potential advantage of tax subsidies over direct assistance is that a tax subsidy taps into an existing administration system (the Australian Tax Office) and hence may be cheaper to administer. However, with the regional headquarters concession this may not be the case since this concession is separately administered and requires individual approval of firms as regional headquarters.

If the present tax subsidy arrangements are kept, the BIE considers the current arrangement of having the final decision on RHQ status made outside of DIST should remain and the guidelines should be rigorously administered. Having an independent final arbiter avoids any ‘moral hazard’ that may arise since under current administrative arrangements revenue costs of the concession do not need to be met from DIST’s portfolio funding. Given the potential for one-off regional headquarters concessions to seriously erode net benefits of the IPFP, the government should ensure that the independent body is adequately resourced for its role.

6 Decisions on eligibility are disallowable instruments under subsection 82CE(5) of the *Income Tax Assessment Act 1936*. However, although eligibility is open to scrutiny, the value of the concession is not since the concession is entitlements based.

> Consideration could be given to converting the current Commonwealth tax subsidies for RHQs to a grants scheme administered by DIST. If the current tax subsidy arrangements are kept, the existing legislated guidelines for awarding regional headquarter status should be vigorously administered and their implementation adequately resourced. For the existing arrangements, the current separation of responsibility for application approval from DIST is endorsed.

The BIE is also concerned that the IPFP can do a good job in attracting FDI to Australia, only to have any net benefits dissipated via 'incentive auctions' between states and territories competing to have it locate in their jurisdiction. Such incentives can be quite large. For example, reports of the incentives offered by New South Wales to attract American Express's new Asia Pacific regional data centre suggest they were at least as much as the total 1994-95 Commonwealth budget allocation for the IPFP. Moreover, such incentives are commonly not transparent.

The BIE notes that New South Wales has recently announced that in future that state's incentives to attract regional headquarters, which previously took the form of certain tax exemptions, will now take the form of a one-off direct subsidy in the form of a tax rebate limited to A$300 000 per project.

The issue of state and territory incentives is a matter for broader consideration than is appropriate in the context of this evaluation of the IPFP. Such incentives require attention in their own right, given that they are likely to remain even if the IPFP was terminated. The BIE notes that the Industry Commission inquiry into state, territorial and local government assistance has a mandate to further examine such issues.

> State and territory incentives are a matter for broader consideration than in the context of an evaluation of the IPFP: this requires attention in its own right.

7.9 Concluding comments

A comprehensive benefit–cost assessment of the IPFP is simply not possible. Too many unknowns and unknowables exist to achieve such an assessment.

Certainly many of the claimed benefits of the IPFP need to be treated with caution. Much of the direct stimulatory effects from additional physical investment induced by the IPFP will eventually disappear. The induced investment will eventually draw labour and other resources from elsewhere in the economy thus reducing activity in other sectors. Further, some of the additional activity associated with the construction and installation of the new investment is necessarily temporary.

Similarly, the claim that IPFP-induced investment will lead to a reduction in the current account deficit should be treated with caution. The dominant effect on the current account is the small appreciation of the Australian dollar when the capital inflows occur. This makes imports cheaper and exports more expensive and hence increases the current account deficit. This effect is reversed as profits from foreign investments are repatriated.

Nonetheless, the BIE notes that there are microeconomic gains that can arise from IPFP-induced investments. The BIE considers that net benefits to Australia from the IPFP depend mainly on increases in the efficiency of business enterprises through positive spillovers that outweigh any negative external effects.

Based on a conservative assessment of the likely benefits and costs arising from the IPFP, the BIE considers that the benefits of the IPFP are likely to exceed the costs at the current level of program expenditure.

The BIE notes that various incentives are available to individual firms from Commonwealth, state and territory governments which, while not part of the program, also seek to encourage investment in Australia. Such incentives — either to attract projects to Australia or to entice a project locating in Australia to go to one jurisdiction rather than another — are a matter of concern to the BIE. These incentives can overwhelm the net benefits of the IPFP. Moreover, it is not possible to forecast the incidence of these incentives since they depend on case-by-case assessment of proposed projects. At the Commonwealth level these incentives are chiefly confined to the regional headquarters campaign and primarily take the form of certain exemptions from wholesale sales tax and deductions for some relocation expenses.

The scale of any such future incentives and their incidence depends on the rigour with which the relevant guidelines are administered. The BIE suggests that there may be advantages to converting these tax subsidies to a grants scheme, capped either in aggregate or on a per applicant basis, administered by DIST. If the current tax subsidy arrangements are kept, the BIE considers that the existing legislated guidelines for awarding regional headquarter status should be rigorously administered and their implementation adequately resourced. For the existing arrangements, the current separation of responsibility for application approval from DIST is endorsed.

8 Strategies, activities and organisation

Under the terms of reference for the IPFP evaluation the BIE is required to assess and report on the suitability of the current strategies and activities of the IPFP and its organisation. In doing so, the BIE has commented on the program's performance, the program administrator's ability to adapt and innovate over time, and where the BIE considers improvements could be made. In some areas, these comments are limited where they would overlap with the consultants also reviewing aspects of the IPFP. They do not, for example, prescribe solutions for areas that are the domain of the consultants engaged to review international best practice in promotion or the IPFP's internal management, organisation and information flows.

This chapter treats the strategies and activities of the IPFP in three sections. The program's country and industry 'sector' targeting is dealt with in section 8.1. The range of program activities, including publications, performance monitoring, matchmaking, missions, major project facilitation and feasibility funding is covered in section 8.2. The scope for introducing fees for IPFP services is also explored in this section. Some comments on the organisation of the IPFP are provided in section 8.3. Concluding comments are provided in section 8.4.

8.1 Program targeting

The IPFP targets particular countries and particular industries, especially manufacturing industries and those service industries that are the responsibility of DIST. In addition to these industries, the program targets multinational enterprises which might be interested in locating regional headquarters in Australia.

8.1.1 Country targeting

The Austrade submission notes that the program's approach has been to 'fish where the fish are' — that is, to position its overseas staff in the countries and cities that are the major sources of global FDI, particularly those with current interest in Australia. In view of the limited resources available to the program, this appears a soundly based strategy to get the most from scarce resources.

As noted in chapter 3 there have been many changes in the number and location of investment commissioner posts since the program's early years in response to diminishing and emerging sources of FDI.

The Hong Kong post was established in January 1993 to capitalise on opportunities arising from its reversion to China in 1997, and its Beijing, Shanghai and Taipei sub-posts were chosen to cover emerging FDI sources in China. The Investment Commissioner at the Singapore post (opened January 1995) also has responsibility for exploring possible FDI from Malaysia.

The location of the IPFP's United States representation has also been changed by moving the former Los Angeles sub-post to San Jose to improve access to the high technology firms of Silicon Valley. The opening of a Chicago sub-post improved the IPFP's contacts with firms in the United States' industrial heartland.

Comparative outcomes from IPFP posts in attracting FDI — expressed as a ratio of post expenditure to the total value of all successes and the value of lead successes — were provided by Austrade and are shown in table 8.1.

Table 8.1 Current IPFP posts and their FDI[a] outcomes, 1992-93 to 1994-95

Post	*Opened*	*Ratio of post expenditure to value of all successes*	*Ratio of post expenditure to value of lead successes*
New York	June 1988	137	6
Frankfurt	June 1988	119	na
Tokyo	November 1988	158	69
Paris	April 1990	373	72
Milan	January 1992	25	na
London	November 1992	729	64
Hong Kong	January 1993	62	32
Singapore	January 1995	32	na

a FDI excludes real estate transactions.
Note: **na** No lead role attributed to this post in this period.
Source: Austrade (supplementary evidence using revised data, January 1996).

Using the ratio of the value of successes from each post relative to the cost of each post as a crude indicator of each post's achievement, there appears to be considerable disparity between posts. In some cases, the low ratios from some posts may be explained partly by their relative infancy. However, it raises questions as to why some resources are yielding such disparate results, how responsive the program is to poor performing posts, whether resources are being allocated to their best effect and whether those resources could be better used elsewhere.

> The strategy of targeting specific countries appears soundly based. The program has generally been responsive to changing conditions by shifting resources between and within countries. As standard operational practice, the IPFP should continue to closely monitor performance of individual posts. If a significant return on expenditure is not forthcoming, those resources should be applied elsewhere in the program.

8.1.2 Industry targeting

Proactive targeting of particular industries has been a feature of the program since its inception. It has, however, undergone considerable change since the program began. In response to recommendations of the 1991-92 review, the focus of the IPFP has narrowed. In 1995 the following general activities received priority attention:

- food processing;
- information technology and telecommunication;
- minerals and chemicals processing;
- textiles, fibres and hides processing;
- waste and environment management; and
- Asia Pacific regional headquarters.

The 1991-92 internal review also recommended that the criteria governing the choice of proactively targeted sectors reflect:

- competitive strengths within Australia;
- compatibility with government policy;
- availability of opportunities in Australia for foreign investment in the proposed industry; and
- the existence of a significant information gap about the industry abroad.

In general, the BIE endorses these as fundamentally sound criteria for selecting industry targets.

The selection of firms by investment commissioners is, however, not solely the result of proactive industry targeting. More commonly, investment commissioners approach firms in response to investment inquiries from foreign or Australian firms or to pursue investment prospects on an opportunistic basis. The Austrade submission, for example, notes that:

> The majority of the time of [IPFP] staff is spent in pursuit of prospective investors, ie. firms who have presented as being seriously interested in possible investments in Australia, or in taking ‘outwards briefs’ from firms or projects in Australia seeking FDI. Only the time remaining is allocated to pro-active targeting of firms who could possibly be persuaded to consider an investment in Australia. (p.16)

During discussions with IPFP personnel overseas, the BIE sought information on the extent to which industry targeting actually guides their promotional efforts. Responses were mixed. Some personnel were emphatic that their efforts mainly reflected targeting priority industries. Others indicated that reactive and opportunistic behaviour accounted for most of the firms they selected for investment promotion and facilitation.

To the extent the IPFP's proactive industry targeting influences the selection of firms to receive investment promotion and facilitation now or in the future, it raises some important matters. In the area of criteria for selecting target industries, there is a question about how much weight should be given to each criterion in determining the ultimate targets. Should compatibility with government policy override the more specific criterion of reflecting competitive strengths? Austrade noted in its submission that greater success is now being achieved by focusing on more specific industry opportunities that match areas of comparative advantage in Australia.

The IPFP now concentrates on a smaller range of sectors, which largely reflect priorities in industry policy for which DIST has departmental responsibility. Two issues arise from this sectoral targeting.

First, in most cases industry sectors are too broad to be a practical target for effective promotion by field staff. Investment commissioners often take a narrower focus in addressing knowledge deficiencies by targeting specific foreign investing firms and key decision makers within those firms. This change is consistent with the evolution of other countries' investment promotion programs. If the IPFP is to address information deficiencies likely to impede potential FDI and these are increasingly identified and targeted at the firm level, the focus on aggregate manufacturing and service sectors must ensure it does not impede such niche targeting. Sector targeting should continue to allow the current flexibility in the selection of prospective investors by investment commissioners.

Second, the current proactive targeting of industry sectors that are the bailiwick of DIST raises the question of whether the sectors that are the responsibility of other departments are being fully considered. The answer depends on the consultative and decision making processes by which targets are determined. This issue is influenced by the IPFP's organisation and information flows — which are addressed by the management consultancy that is part of the broader IPFP evaluation.

> Targeting industry sectors should not exclude pursuing niche opportunities to overcome knowledge deficiencies at the firm level. The BIE endorses current practice, which provides considerable flexibility to investment commissioners in choosing target firms and projects.

In practice, investment commissioners target individual firms (and specific people in those firms) within industry sectors. As noted in chapter 6, the BIE considers some operational guidelines are needed to improve the selection of firms most likely to yield net benefits to Australia. Investment commissioners at each post already implicitly operate with their own guidelines. As a step towards establishing explicit operational guidelines, it might be useful to codify their collective implicit guidelines, with a view to establishing 'best practice'. Such guidelines could be augmented with lessons arising from any further study of the sources and magnitude of benefits arising from induced FDI.

> Current operational guidelines implicitly used by investment commissioners to target investing firms likely to yield net benefits to Australia should be drawn together with a view to identifying and applying best practice.

Targeting firms with prospects of establishing regional headquarters in Australia is a special case. Although the immediate benefits of RHQ investment are similar to more general FDI, regional headquarters projects are likely to have more ‘leverage’ in terms of inducing future FDI than IPFP projects in general. In other words, if it is a firm’s regional headquarters in Australia that increases the probability of future FDI from that firm, regional headquarters with, say, 10 employees may have more influence than a factory with 100 employees. Additionally, because a firm’s regional headquarters are usually quicker to establish than, say, a greenfields factory, it can exert that influence sooner.

Further effort is needed to assess the likely benefits from regional headquarters. As the regional headquarters campaign has now been in place for two years and the RHQ unit of DIST has claimed a number of successes, it may be appropriate to test the empirical basis for these claimed benefits. The means for such an assessment could be incorporated in the IPFP’s monitoring of performance to improve performance measurement.

8.2 Program activities

The BIE believes there may be some scope for improving a number of IPFP activities. Those examined here are its publications, performance monitoring, matchmaking, overseas missions by the Minister for Industry, Science and Technology and the Special Investment Representative, major project facilitation, and feasibility funding. The merits of imposing fees for IPFP services are also considered.

8.2.1 Publications and promotional material

In the late 1980s the program’s promotional activities began with a generic campaign showing that Australia combined an advanced industrial structure and an enviable lifestyle. The program’s initial publication was *The right climate*, which was complemented by a video illustrating the main points.

The 1991-92 review of the program noted the need for a more specific approach for the program to achieve significant results. The promotion focus therefore moved toward identifying and marketing specific opportunities with quantitative comparative information, although the program continued with some generic promotion. This evolution is in accord with the experience of other government investment promotion agencies (Wells and Wint 1990).

The transition to more specific promotion techniques involved one-to-one contact between investment commissioners and senior corporate executives. This was also in line with findings by Wells and Wint (1990) that in ten of the eleven cited instances where a promotion program had significantly influenced investors: '... they had been personally approached by investment promoters who continued to work with their companies throughout the investment decision process' (p.51).

One of the IPFP's fundamental aims is overcoming information failure by preparing and distributing generic and industry focused literature. BIE interviews with program firms and potential foreign investors established that the IPFP publications were a valued source of information on the Australian investment environment.

Until the early 1990s almost all program material was published only in English, apart from the initial flagship publication, *The right climate*, which was also published in Japanese. In response to requests from investment commissioners, the program's major titles are now also published in Italian, French, Japanese, Mandarin and Taiwanese. Indications from investment commissioners are that the translations are widening the IPFP's reach in business circles. Investment commissioners have, however, expressed some concern about delays in translating major titles such as the latest 'flagship' booklet.

The format of IPFP literature is also an issue. Because of a perceived need to match similar publications produced by international competitor agencies, program literature has generally been published in high quality, glossy formats. Some IPFP staff overseas commented that there had been an undue concentration on style rather than content (this was a point also made in the 1991-92 internal review). One recent example was a coffee-table sized publication that was awkward to carry, mail or put on a bookshelf.

The publication of high quality promotional material in bound form, rather than in a more accessible and readily revised loose leaf form, has also been an occasional concern. Discussions with IPFP staff in Australia and overseas indicate that, as consultation processes have now improved, DIST is more cognisant of the 'field' requirements of its promotional material.

The basis of selecting subject matter for IPFP publications is another issue of some concern. Proactive targeting, for example, directs funds and resources into preconceived areas. However, investment commissioners most often deal with firms operating in narrow industry segments, and BIE discussions with investment commissioners showed that potential investors want highly targeted, specific information. They are less interested in broad-brush material. The question of *who* sets the IPFP's agenda and *how* the decisions on what to include are made, has not been fully resolved. Decisions on publications seem at times to have been influenced by overall industry policy imperatives rather than by investor needs that are relayed through the investment commissioner network.

On the question of the subject material in IPFP publications, the submission from the South Australian Economic Development Authority noted the lack of a regional focus in promotional material. This, it was felt, gave an unequal representation to the largest states.

Despite the qualifications noted above, information from investment commissioners endorsed the IPFP publications as a valuable marketing tool.

The concerns noted above are matters best addressed in the context of the internal organisation, management and information flows of the IPFP. These matters are dealt with by the management consultancy involved in the IPFP evaluation.

IPFP publications were found to be a valuable marketing tool, but attention is needed to ensure that publications remain focussed and respond to questions and issues raised by overseas investors.

8.2.2 Performance monitoring

Good management and accountability depend on information and performance monitoring. However, gathering information is not a costless exercise, and the benefits of effort put into it must be set against the benefits of effort put into other activities directed at attracting FDI.

The 1991-92 review found deficiencies in the program’s information and performance monitoring systems and made recommendations for remedial action. There has been some improvement in the program’s systems since then. As an example, investment commissioners’ monthly reports have been standardised and now contain more and better quality information. The recent move to independent verification of Austrade’s claims (via auditing) is another positive example. In addition, information from the consultants looking at international best practice ranks the program highly for its performance monitoring.

However, comprehensive data are still scarce — which complicates any evaluation of the program. For example, the coverage of projects in the Austrade database is poor. Only 66 per cent of projects both before and after 1992-93 record the value of investment. About 40 per cent of all projects are recorded as contributing to exports but only a quarter of these have a recorded value for likely exports. This contrasts with BIE survey responses, which indicate 70 per cent of projects do or will involve exports. Figures on contributions to employment are available only for 49 of nearly 190 projects. On the RHQ database, many individual projects have estimates of only FDI value and employment based on figures derived from a report on regional headquarters by the Allen Consulting Group (1994). It should be a relatively easy task for IPFP staff to verify projects’ current standings.

Furthermore, some inconsistencies are apparent in the data collected. Austrade records exports from projects, but not imports replaced. A comprehensive Austrade–DIST database is lacking and, as a result, there are major inconsistencies between Austrade and DIST data on regional headquarters. Some projects recorded by DIST are not on Austrade's database. Where both databases register the same project, values for employment and investment sometimes differ. That such differences occur can be explained — for example, values could have been recorded at different times. However, such differences must be resolved if the IPFP is to compile comprehensive and consistent performance indicators. A single record keeper might be one solution to these differences.

Moreover, within the Austrade database, the number and value of FDI 'successes' (discussed in box 5.1, chapter 5) may reflect firms that have announced their decision to invest in Australia rather than those that had actually invested. This is because Austrade does not systematically follow up all firms to verify that they have converted their investment decisions into projects. The BIE considers there is a need to periodically reassess claimed successes to ensure that investments have actually taken place. This proposed follow-up process would complement the external annual auditing of Austrade's initial FDI success claims.

On the matter of 'successes', Austrade classifies these according to whether the program played a lead, substantial or minor role. It bases its initial classifications on assessments made by individual posts of the program's contribution to a positive outcome. Austrade then reviews each success claim to ensure there is consistency in reporting from all overseas posts. However, it appears that not all posts adhere to the same classification of 'lead', 'substantial' or 'minor' roles in listing successes.

A further point is that there appears to be no common approach to classifying RHQ 'successes' by category between Austrade and DIST. This too is needed for total program indicators.

The BIE found the performance monitoring of the IPFP has improved since the 1991-92 review. However, the Austrade and the DIST databases still have significant gaps and lack consistency in measurement. This impedes a comprehensive evaluation of the program and its activities and is an area requiring considerable further improvement.

Another area of performance monitoring will arise if the additional subsidiary objective for the program suggested by the BIE — 'to identify systemic and specific impediments to investment in Australia …' — is adopted (see section 6.3). It creates an ensuing need for performance measures to assess whether program outcomes are achieving that objective. Accordingly, if this objective is officially recognised as valid, the BIE considers that performance measures should be developed to enable the effectiveness of the program in achieving this objective to be tested.

> If an additional objective along the lines proposed by the BIE is adopted, performance measures should be developed to enable the effectiveness of the program in achieving this objective to be tested.

8.2.3 Australian investment briefs

The promotional effort of the program is increasingly focused at the specific firm level and at key decision makers within those firms. This is consistent with the program's objective of developing links between prospective investors and commercial opportunities in Australia (see section 6.2.2).

Prior to 1992 the program used 'portfolio investment opportunity' documents to market investment matches between overseas investors and Australian opportunities. These were generally provided by Australian firms or their professional advisers. However, as the submission from Dr Roso noted, the quality of briefs emanating from Australia in this period were below an acceptable standard. Austrade staff also noted they were frequently too general, were occasionally developed by firms unable to guarantee delivery of their side of the proposed project, and were often not kept up-to-date.

State and territory agencies expressed divergent opinions on the worth of more recent investment briefs. The submission from the Victorian Government, for example, stated '… we regard the development of investment briefs for promotion offshore as a legitimate and potentially a very successful activity to be continued and, indeed, expanded under the IPFP'. Other states offered a different view. The Government of Queensland, for example, considered the Austrade policy of focusing on locally generated investment opportunity 'briefs' to be misplaced. It claimed experience among investment attraction agencies globally indicates a limited success rate for this approach.

In discussions with the BIE, investment commissioners were considerably more supportive of investment briefs. Universally they considered them a marketing tool of major importance. By providing a specific investment opportunity related to a firm's business, they are a persuasive tool in gaining access to key decision makers. Meeting with key personnel is often the crucial first step on the path to overcome any misperceptions.

Even where the specific project embodied in an investment brief does not eventuate, investment commissioners told the BIE that the discussions they generate often evolve into other investment projects. The submission from AIDC Ltd made the same point, stating that the marketing of investment briefs often has spillover benefits in the form of encouraging investment in other projects in Australia. The key is getting to the top decision makers and promoting Australia as an investment location — and investment briefs are an invaluable tool in achieving this access.

The apparent value of Australian investment briefs as a marketing tool suggests more resources should be directed to this activity especially if the IPFP continues to target the information deficiencies of key decision makers within specific foreign firms.

Australian investment briefs were found to be a marketing tool of major importance in gaining access to key decision makers in specific firms. The importance of suggests additional resources be applied to them.

8.2.4 Missions

A key activity of the IPFP is overseas missions involving the Minister of Industry, Science and Technology and the Special Investment Representative holding discussions with potential investors.

Such missions have advantages in that ministers and former ministers can speak with knowledge and authority not available to others. Moreover, key executives of potential foreign investors are usually more accessible to ministers and former ministers. Missions certainly generate results. Testimonials from firms contacted and information from investment commissioners, for example, suggest that such missions can be extremely valuable for accessing key decision makers and stimulating FDI in Australia.

However, there are costs as well as benefits associated with these missions. Organising and supporting missions absorbs a lot of IPFP staff time in Australia and overseas. For example, a team of four or five DIST staff worked full time for several months to prepare for the Minister’s July 1994 Europe–United States investment mission. European and United States investment commissioner posts were heavily involved in organising appointments with many firms and business organisations.

Some concerns brought to the BIE’s attention in the course of the evaluation suggest that the IPFP may not be making best use of its resources in this area. These concerns were twofold. First, that representations by ministers and former ministers with smaller potential investors could be counterproductive. Second, that overseas missions seem to be driven by priorities not always in accord with IPFP priorities or those of the posts being visited.

The first concern suggests the IPFP needs to develop additional guidelines for assessing whether a mission is warranted. The second suggests the process of selecting mission targets and timing requires more attention. Both concerns involve information flows and thus fall within the bailiwick of the management consultancy undertaken as part of the broader review.

8.2.5 Major project facilitation

Facilitating major projects accounts for only some A$70 000 of the IPFP's expenditure in 1994-95. By December 1995, only three major projects designated for facilitation had completed the approvals process and were producing. Two other projects had received all necessary approvals and were under construction (see table 3.3).

The BIE obtained information on the worth of the major project facilitation subprogram of the IPFP from six of the 11 firms with projects with MPF status (from interviews with company representatives and survey responses). The common thread from that information is that major project facilitation is useful to guide the firms involved through approval processes. It makes the process of investing easier, faster and more efficient by clarifying the requirements of the Commonwealth and state approval processes. This benefits other firms who may follow similar approval processes — that is, it provides spillover benefits to companies not designated as 'major projects'. In general, the firms that had received project facilitation considered the Commonwealth arm of the IPFP had contributed significantly to this outcome.

Because project facilitation is a relatively minor element of the IPFP, it has not been a major focus of this evaluation. Such information as the BIE has received from the majority of the companies involved in the MPF process indicates this element of the IPFP is operating well.

As the effectiveness of facilitation depends on communication and information sharing with state and territory governments the BIE feels that any comment on whether or how major project facilitation could be improved should be made by consultancy evaluating the IPFP's information flows.

8.2.6 Feasibility study funding

Investment commissioners emphasised during their discussions with the BIE that offering some form of incentives is important in the initial phase of interesting investors in Australia. They also asserted that the relatively small amount of money involved in funding feasibility studies is a cost-effective way of demonstrating the government's genuine interest in attracting FDI to Australia.

There is no difference in principle between the government providing information in its own right through the investment commissioner network and the government subsidising foreign (and some Australian) firms to obtain information via feasibility studies. The economic rationale for both is essentially the same. And, from Australia's standpoint without such assistance, firms may suboptimally invest in obtaining information.

Funding feasibility studies is clearly a subsidy for investor firms. However, it is a tied subsidy in the sense that it can be spent by the firm only on obtaining specific information. As such, it raises a number of economic issues. First, any subsidy may involve an economic cost to society in that it may promote one form of economic activity over another. Second, it may involve further economic costs if it encourages firms into rent seeking activity. That is, firms may divert resources away from their mainstream production activities towards seeking government subsidies in one form or another. If these activities involve the use of Australian resources without an offsetting benefit to Australia, they add to the economic costs of the incentives. Third, they are an FDI incentive visible to foreign governments. They therefore add, however modestly, to the prospect of competing Asia Pacific regional governments using FDI incentives to attract FDI to their own countries and to Australia's cost. Finally, by offering feasibility funding, Australia may find it harder to argue successfully in international forums for the elimination of similar incentives.

A question that needs to be answered is whether the effectiveness and efficiency of the IPFP would be improved if the funds allocated to feasibility funding were diverted to its mainstream information and facilitation services.

The BIE is not in a position to suggest either the cessation or continuation of Commonwealth feasibility funding incentives. However, it would not support *increasing* this Commonwealth financial incentive for FDI. At present these incentive offered by the federal government are relatively small and not likely to lead to retaliation from rival countries in Australia's region also seeking to attract FDI. It is also probably small enough not to diminish the force of any Australian initiatives at international forums to establish common ground rules for attracting FDI.

Submissions from Tasmania Development and Resources and the ACT Business, Employment and Tourism Bureau considered the threshold level of investment to qualify for access to feasibility funding (currently A$10 million) disadvantaged the smaller states and territories. The Tasmanian submission considered the threshold should be lowered to A$5 million. It argued the lower threshold would be of advantage to the small states and to regional/rural Australia. The ACT submission also suggested a lower threshold would go some way to compensating smaller states for the apparent IPFP bias toward FDI in the larger states.

In part, this argument implies that the smaller economies are more likely to generate smaller value projects. The experience of the Hokushin investment in Tasmania (over A$90 million) suggests this is not necessarily so. In addition, any reduction in the threshold limit would presumably apply to all states and territories. If that were the case, the larger economies would have proportionately more projects competing with those from the smaller economies.

Any threshold investment level must take account of the need to minimise the administrative costs for any level of feasibility funding and the need to ensure equity of access for states and territories. The BIE considers the question of the threshold level is best decided by consultation between the state, territory and Commonwealth agencies involved in the IPFP.

8.2.7 Fee for services

In its issues paper calling for submissions the BIE asked if there were services of the IPFP for which a fee could be charged. Such charges could have a number of advantages for Australia: they could provide a guide for resource allocation within the program and they could add to Commonwealth revenue to the benefit of Australian residents.

At the moment, most of the IPFP services are provided free of charge. There are some exceptions. The Government of Queensland submission, for example, noted that in a limited number of cases where the program promotes private joint venture opportunities within Australia to overseas investors, Austrade charges a 2 per cent finder's fee. As well, Austrade's submission stated that clients in Australia have been charged for services that required the use of non-program resources. This though is rare.

Charging for non-program resources is the one area where the BIE received limited endorsement of a fee for services. The Victorian Government, although rejecting a general fee-for-service approach in its submission, suggested:

> … one means of ensuring that a state obtains greater and more committed representation in a particular country through the IPFP office is to commission that office to undertake specific representational activities on a fee-for-service basis. (p.29)

In view of the precedent noted by Austrade, this limited fee-for-service approach to the provision of services appears to be already catered for by the IPFP.

In its submission, Austrade pointed out a general fee-for-service approach would involve a number of difficulties.

- Under the Vienna convention, to which Australia is a signatory, charging foreign clients could jeopardise tax and duty exemptions for other Australian agencies operating overseas.
- Charging fees in the United States would bring the IPFP within the ambit of United States Securities and Exchange Commission regulations. Among other implications, this would limit access to United States companies as financial intermediaries are not allowed to put proposals to United States companies unless there is a pre-existing relationship.
- Australia would be unique in that none of its national competitor agencies charges for the provision of information or services.

- Introducing fees could jeopardise the IPFP's relationship with intermediaries. In part, the present complementary relationship between the IPFP and the private sector reflects the fact that it does not compete with them for fees.
- Charging fees implies that the IPFP would operate on a commercial basis. Good commercial practice implies that fee-paying clients would have priority, but this is likely to conflict with the other demands, such as ministerial and Special Investment Representative briefings.

Investment commissioners also commented that potential investors expect investment promotion agencies to provide their information without charge; and that if fees were introduced, Australia would be at a disadvantage in relation to its Asia Pacific rivals. Submissions from state and territory agencies that commented on the suggestion of charging fees were of the same view. These submissions considered introducing a fee for services provided to overseas investors was neither appropriate nor practical.

Insofar as they relate to the operations of the IPFP overseas, the BIE gives weight to some of the above arguments against introducing fees, especially the absence of charges in the existing international promotion market. The introduction of charges would amount to charging potential customers for Australia's 'sales pitch'. Moreover, state and territory promotion agencies noted that, if the IPFP were to charge for its services, some prospective investors would bypass the IPFP in favour of their agencies, which would provide such services free of charge.

Introducing fees for specialist services such as accounting or legal advice is not an issue as the IPFP does not provide such services itself. And charging for facilitation services related to, for example, immigration procedures, foreign investment requirements and environmental approvals does not seem appropriate when other users are not charged for these services.

The BIE considers the scope for generally introducing fees for IPFP services aimed at overseas clients is likely to be very limited. However, a case may exist for charging Australian based firms for developing their proposals into investment briefs. The possibility of losing the project to a foreign location does not arise and the Australian party usually approaches the IPFP rather than the reverse. Thus there is already a substantial degree of commitment to the project in question.

Introducing charges for investment briefs may be feasible, but is it worthwhile? If charges were introduced, users of the service would make a less distorted decision about whether to use their own resources, a private intermediary or the IPFP. This is likely to benefit Australia's overall resource allocation efficiency. Charges would also provide signals (information) to IPFP decision makers as to where they should direct their resources to achieve a more efficient program. Austrade itself recognises that charging a fee may help to confirm the commitment of clients to projects for which investment briefs are preferred. However, it notes that over the past three years it has developed other means of assessing the capability and commitment of potential clients, and these have proved satisfactory.

If the focus of the IPFP continues to emphasise overcoming information deficiencies at the specific firm level, investment briefs are likely to assume greater importance in its promotional effort. The scope for recovering the costs of preparing investment briefs from overseas potential investors appears negligible. There may be more scope for recovering costs from private proponents within Australia whose commercial interests the briefs can advance.

In view of the added emphasis that the IPFP is likely to give investment briefs, the BIE considers this issue should be examined further by the program administrators.

> The scope for generally introducing fees for IPFP services aimed at overseas investors appears limited. However, In view of the added emphasis that the IPFP is likely to give Australian investment briefs, the program administrators should examine further the issue of recovering costs from the Australian proponents of the projects embodied in investment briefs.

8.3 Organisation

The efficiency and effectiveness of the program as a whole and of its parts are affected by how the division of functions between DIST and Austrade is handled. While the BIE did not focus on the organisational or management efficiency and effectiveness for its evaluation of the IPFP, various submissions highlighted problems arising from the separation of the IPFP's functions. The submission from the New South Wales Department of State Development, for example, stated:

> It is somewhat confusing to States, the private sector and potential investors having the program under DIST but contracted to Austrade. From the outside there appears to be duplication. The solution would be to streamline the process or to better delineate the duties of each entity. (p.8)

Foremost here was the confusion that the separation engendered for the program's regional headquarters efforts. The Victorian government, for example, stated in its submission that it had experience of DIST and Austrade competing for the same turf. This had been particularly evident in the contact program directed towards Australian subsidiaries of international companies.

As the recently-launched research and development (R&D) promotion is modelled on the regional headquarters initiative, it is important that any lessons from the RHQ concerns be distilled and applied to the R&D promotion. The BIE understands this matter will be addressed by the management consultancy commissioned as part of the broader review of the IPFP.

Also a matter of concern arising from the separation of functions is the extent to which DIST and Austrade are cognisant of each other's decisions and needs. Problems with some publications and the priority accorded the translation of publications are examples of this. Another example is the choice of subjects for publications and the destinations and timing of missions. At present, setting priorities for promotional material appears to be guided essentially by DIST policy rather than by feedback from operational personnel. As with the regional headquarters concern noted above, the BIE understands these are matters to be addressed by the management consultancy.

Despite these instances of organisational problems, the BIE found evidence that the IPFP has done much to improve the working relationship and lines of communication between the DIST and Austrade program arms. The memorandum of understanding signed at the start of 1995 is a concrete example of ongoing efforts to define and improve the delineation of responsibilities. More regular formal and informal meetings of DIST and Austrade staff is another example.

> Much has been done to improve the working relationship and lines of communication between the DIST and Austrade program arms, and the processes recently put in place augur well for continued improvement.

8.4 Concluding comments

Overall, the IPFP appear to have done much with relatively few resources and has been successfully adapted in response to changing circumstances and to experience gained from strategies and activities that may not have worked as well as anticipated.

The strategy of targeting specific countries for investment promotion effort (to 'fish where the fish are') appears soundly based, and the IPFP has generally shown its responsiveness to changing conditions by shifting resources between and within countries. The IPFP's strategy of targeting industries, while cognisant of the government's industry priorities, allows investment commissioners considerable flexibility in their choice of target firms and projects.

The IPFP's internal performance monitoring has improved since the internal review reported in 1992, but the Austrade and the DIST databases still exhibit significant gaps and lack consistency in measurement. This impedes a comprehensive evaluation of the program and its activities and is an area requiring considerable further improvement. The BIE understands measures are currently underway to address this.

The matchmaking role of the IPFP appears to have been useful in marketing Australia as an investment location. In this regard, Australian investment briefs were found to be a marketing tool of major importance in gaining access to key decision makers in specific firms. The importance of briefs as a marketing tool suggests that additional resources should be applied to them.

Missions too have proved a successful vehicle for promoting Australia, although there is some concern that the IPFP needs to develop additional guidelines or processes for assessing when and where missions are warranted.

The BIE explored introducing fees for IPFP services and, at least for services aimed at overseas investors, considers that the scope for this generally is limited. However, recovering cost from the Australian proponents of projects embodied in investment briefs appears to be more practical and, in view of the likely future emphasis on investment briefs, demands further examination by program administrators.

The organisational structure of the program was specifically addressed by a management consultancy which formed another part of this program review. The BIE notes that much has been done to improve the working relationship between DIST and Austrade and the processes recently put in place augur well for continued improvement.

9 Findings, recommendations and resources

The BIE's evaluation of the Investment Promotion and Facilitation Program concentrated on three key questions:

- Was the IPFP an appropriate government intervention, given its underlying rationale of correcting market failure?
- Has the IPFP met the objectives set for it?
- Are the IPFP's benefits greater than its costs?

The evaluation task also required the BIE to report and make recommendations on whether the program should continue in its present form or be modified, specifying any modifications required. In this regard the BIE reviewed resources, program objectives, strategic priorities, targeting, organisational structures and activities, and performance measurements.

A summary of the BIE's evaluation drawing together the review's findings and recommendations is provided in sections 9.1 to 9.5. The implications these findings and recommendations have for IPFP resources is discussed in section 9.6.

9.1 Appropriateness

The BIE's research confirmed that there are significant misperceptions about Australia as a location for investment among foreign potential investors. These misperceptions and a lack of awareness of investment opportunities have acted to reduce the level of FDI in Australia. While private markets also supply information to potential investors, they do not always have the incentive and expertise to fully address these deficiencies. The IPFP appears to successfully play a role in correcting for the underprovision of promotion services offered by the private market.

Finding

- Many foreign potential investors appear to have negative perceptions and information deficiencies about Australia as a location for their FDI. These may arise from a number of possible sources of market failure. Market forces alone are not likely to supply the appropriate level and quality of information to correct this. The BIE is satisfied that the IPFP is an appropriate intervention to deliver promotion and facilitation services and has successfully done so.

Recommendation

- The underlying justification for the program should be regularly re-examined. This could be done by a small inter-departmental review group and the findings should feed into the regular budgetary review process for the IPFP.

9.2 Impact on attracting investment

Overall, the program records indicate it has been associated with over A$3.5 billion of FDI since its inception in 1987. Over the past three financial years — the period since the internal review and effectively the life of the current IPFP — program records indicate it has been associated with about A$2.1 billion of FDI.

The BIE is satisfied that the IPFP has been successful at the margin in attracting additional FDI to Australia. This is based on, among other things, the results of surveys of firms involved in the program and face-to-face interviews with investing firms. The BIE obtained sufficient information to indicate that around a third of the total FDI from projects under the IPFP could reasonably be described as locating in Australia as a result of the program's activities.

Based on the total recorded FDI claimed under the IPFP over the past three financial years the BIE estimates an average of around A$235 million a year located in Australia as a result of the program's activities. This estimate should be treated with care, however. Factors such as the influence of other government programs, unrecorded FDI for program 'successes' and anticipated FDI that may not eventuate suggest this is an indicative rather than definitive figure.

Finding

- The BIE estimates that over the past three financial years, the IPFP has induced on average about A$235 million of FDI a year.

9.3 Objectives and outcomes

The BIE considers the IPFP's outcomes have met all of its objectives. Two objectives, however, warrant changing. This reflects in part the evolution of the program and its more specific targeting of firms. It also reflects the difficulty in measuring the performance of the program against one of its objectives and, thus, in assessing how effective the program is. Also, the reference to technology transfer in one objective requires clarification on what type of technology is envisaged (compensated or spillover). In view of the importance of technology transfer as a benefit accruing from FDI, the objective needs to be supported by operational guidelines to improve the likelihood of gains from this source.

In view of the IPFP's evolving relationship with other agencies of government — particularly in feeding the experience of the program back to investment policy makers — the IPFP needs an additional objective to acknowledge this role.

Finding

- Program outcomes have met all program objectives, but some changes are warranted.

Recommendations

The first objective for the IPFP should be revised along the lines of:

> Promote Australia as a location for direct investment to those firms with the potential to invest in Australia by overcoming knowledge deficiencies at the firm level in particular, having regard to Australia's competitive strengths and with an emphasis on manufacturing and services projects.

- A subsidiary objective appears warranted along the lines of:

> Identify systemic and specific impediments to investment in Australia, based on its activities, and advise government of any such impediments.

9.4 Benefits and costs

Based on a conservative estimate of the likely benefits and costs arising from the IPFP, the BIE considers that the benefits of the program — although difficult to quantify — are likely to exceed its costs at the current level of program expenditure. The BIE has taken an economywide view of the effects of any additional activity induced by the IPFP which assumes that such activity will largely displace domestic activity in the long run.

The BIE notes that various incentives are available to investors in IPFP-induced projects from Commonwealth, state and territory governments which, while not part of the program, also seek to encourage investment in Australia. Such incentives — either to attract projects to Australia or to entice a project locating in Australia to go to one jurisdiction rather than another — are a matter of concern to the BIE. These incentives have the potential to overwhelm the net benefits of the IPFP. Moreover, it is not possible to forecast the incidence or value of these incentives since they depend on case-by-case assessment of proposed projects. At the Commonwealth level these incentives are chiefly confined to the regional headquarters campaign and primarily take the form of certain exemptions from wholesale sales tax and deductions for some relocation expenses. The issue of state and territory incentives clearly extends well beyond a review of the IPFP, and requires attention in its own right.

Findings

- The BIE considers it likely that there has been a short term increase in economic activity resulting from an IPFP-induced increase in FDI.
- IPFP-induced FDI is not likely to lead to a significantly expanded Australian capital stock in the long run. However, IPFP-induced FDI may increase the quality of Australia's capital stock by introducing better methods of production or by better matching Australia's stock to international market conditions.
- The BIE considers that such positive spillovers are likely to constitute the main benefits to Australia associated with foreign investment induced by the IPFP. As such spillovers appear to be a major source of potential benefits from the IPFP, this is an area in which more work needs to be done.
- As long as every dollar of IPFP-induced FDI over the past three financial years has net spillover and other benefits of at least seven cents, the benefits of the program are estimated to exceed the costs of program expenditure. The BIE considers this is a plausible outcome.
- Specific Commonwealth, state and territory incentives granted to investors in IPFP-induced projects to encourage investment in Australia are a matter of concern. Such incentives have the potential to overwhelm net benefits generated by the IPFP. State and territory incentives are a matter for broader consideration than in the context of the IPFP. This matter requires separate attention in its own right.

Recommendation

- Consideration should be given to converting the current Commonwealth tax subsidies for RHQs to a grants scheme (capped on a per applicant basis or in aggregate) and administered by DIST.
- If the current tax subsidy arrangements are kept, the existing legislated guidelines for awarding RHQ status to firms should be rigorously administered and their implementation adequately resourced. For the existing arrangements, the current separation of responsibility for application approval from DIST is endorsed.

9.5 Strategies, activities and organisation

The IPFP has sought to improve coordination and cooperation in investment promotion and facilitation by Commonwealth, state and territory agencies. It appears to have succeeded in this aim. It has also sought to integrate its activities with those of private sector intermediaries in Australia and overseas. Again it appears to have done so and, by and large, complements these activities rather than displaces them.

The IPFP's strategy of targeting specific countries for investment promotion (to 'fish where the fish are') appears soundly based. The program has generally shown its responsiveness to changing conditions by shifting resources between and within countries. The strategy of industry targeting, while cognisant of the government's industry priorities, appears to give investment commissioners considerable flexibility in choosing target firms and projects.

The publication activities of the IPFP have moved to targeting specific opportunities with quantitative comparative information, although it continues with generic promotion. Interviews with program firms and potential foreign investors and investment commissioners established IPFP publications are a valuable marketing tool. Attention is however required to ensure they remain focussed on the requirements of potential foreign investors.

Internal performance monitoring has improved since the internal review reported in 1992, but the Austrade and the DIST databases still have significant gaps and lack consistency in measurement. This deficiency impedes a comprehensive evaluation of the program and its activities and is an area requiring considerable further improvement. The BIE understands measures are currently under way to address this.

The matchmaking role of the IPFP appears to have been useful in marketing Australia as an investment location. In this regard Australian investment briefs appear to be a marketing tool of major importance in gaining access to key decision makers in specific firms. Missions have proved a successful vehicle for promoting Australia, although there is some concern that the IPFP needs to develop additional guidelines or processes for assessing when and where missions are most warranted.

The BIE explored introducing fees for IPFP services and, at least for services aimed at overseas investors, concluded that the scope for this generally appears limited. However, the scope for cost recovery against the Australian proponents of projects embodied in Australian investment briefs appears to be more practical and, in view of the likely future emphasis given to investment briefs, the BIE considers that this warrants further examination by program administrators.

The organisation structure of the IPFP was specifically addressed by the management consultancy which formed another part of this program review. The BIE notes though that much has been done to improve the working relationship between DIST and Austrade and the processes in place augur well for continued improvement.

Overall, the BIE considers the IPFP has done much with relatively few resources and has been successfully adapted in response to changing circumstances and experience.

Findings

- The strategy of targeting specific countries appears soundly based. The program has generally been responsive to changing conditions by shifting resources between and within countries.
- The IPFP has been instrumental in improving the coordination and cooperation in investment promotion and facilitation by Commonwealth, state and territory agencies. It has demonstrated its capacity to respond positively to pressure for change and for continuous improvement.
- The BIE considers that the IPFP has integrated its activities with those of private sector intermediaries and, by and large, complements their activities rather than displaces them. This appears true both in Australia and overseas.
- The BIE found the performance monitoring of the IPFP has improved since the 1991-92 review. However, the Austrade and the DIST databases still have significant gaps and lack consistency in measurement. This impedes a comprehensive evaluation of the IPFP and its activities and is an area requiring considerable further improvement.
- IPFP publications were found to be a valuable marketing tool, but attention is needed to ensure that publications remain focussed and respond to questions and issues raised by overseas investors.
- Australian investment briefs were found to be a marketing tool of major importance in gaining access to key decision makers in specific firms.
- The scope for generally introducing fees for IPFP services aimed at overseas investors appears limited.
- Much has been done to improve the working relationship and lines of communication between the DIST and Austrade program arms, and the processes recently put in place augur well for continued improvement.

Recommendations

- Targeting industry sectors should not exclude pursuing niche opportunities to overcome knowledge deficiencies at the firm level. The BIE endorses current practice, which provides investment commissioners considerable flexibility in choosing target firms and projects.
- As standard operational practice, the IPFP should continue to closely monitor performance of individual posts. If a significant return on expenditure is not forthcoming, those resources should be applied elsewhere in the program.

- Operational guidelines should be developed for targeting firms that are designed to improve the likelihood and value of technology transfers (broadly defined) from any ensuing projects.
- Current operational guidelines implicitly used by investment commissioners to target investing firms likely to yield net benefits to Australia should be drawn together with a view to identifying and applying best practice.
- If an additional objective along the lines of that proposed by the BIE is adopted, performance measures should be developed to enable the effectiveness of the program in achieving this objective to be tested.
- The importance of the Australian investment briefs as a marketing tool suggests that additional resources should be directed to this activity.
- In view of the added emphasis that the IPFP is likely to give Australian investment briefs, the program administrators should examine further the issue of recovering costs from the Australian proponents of the projects embodied in investment briefs.

9.6 Implications for resources

The resources devoted to the operation of the IPFP are relatively small in dollar terms. The resources devoted to the operation of the program are also small relative to the resources used by some of Australia’s nearby competitors for FDI. For example, in 1994 Singapore’s Economic Development Board — its investment promotion agency — had an operating budget of about A$110 million a year. Malaysia, which has an economy smaller than New South Wales, has a budget for its Industrial Development Agency of some A$15.8 million a year.

Program resources devoted to any one of the range of countries targeted under the IPFP are commensurately quite small. The limited presence of the program in the countries it targets and the relative youth of the current IPFP suggest it has not yet reached a state of diminishing marginal returns in those countries. The BIE would expect positive marginal returns to apply if the country coverage were altered to encompass other potentially major source countries for FDI (such as the Republic of Korea). Any changes to the program’s overseas presence, however, should be mindful of the need to maintain a ‘back office – field staff’ ratio sufficient to provide adequate support to overseas posts and to service investor inquiries in Australia.

Because the IPFP appears to correct market failure, meets its current objectives and is likely to yield benefits in excess of its costs, the BIE considers the Commonwealth government should continue at least the present level of aggregate real budget funding for the program. Also, because the BIE’s assessment is that the program is not yet at a state of diminishing marginal returns, if a modest expansion occurred in the program’s overseas presence the BIE would expect it to continue to yield benefits greater than costs for the short to medium term. The BIE considers these are plausible grounds for a modest expansion of program funds. Such a decision, however, would need to be weighed against competing demands for budget monies.

As much of the internal operation of the IPFP is influenced by the management, organisation and information flows — areas not within the BIE's terms of reference — comment on internal resource allocation is necessarily limited.

Recommendations

- The IPFP overall should continue to receive at least the same level of real budget allocation as it does at present. A modest expansion of funding appears warranted. Such a decision, however, would need to be weighed against competing demands for budget monies.

A Submissions from interested parties

The BIE sought submissions from interested parties to assist its evaluation. This was done by circulating an Issues Paper directly to some organisations and individuals and by placing advertisements in The Australian Financial Review and The Australian.

As a result of these initiatives written submissions were received from the following individuals and organisations:

- AIDC Ltd;
- Australian Trade Commission (Austrade);
- Business, Employment and Tourism Bureau (Australian Capital Territory);
- Victorian Government (Department of Business and Employment);
- Department of Commerce and Trade (Western Australia);
- Department of State Development (New South Wales);
- Government of Queensland (Department of the Premier, Economic and Trade Development);
- Price Waterhouse;
- Dr W. Roso (former Investment Commissioner, Europe, 1988–92);
- Mr M. See (Investment Commissioner, Singapore);
- South Australian Economic Development Authority; and
- Tasmania Development and Resources.

B Parties interviewed

The BIE met with or held telephone discussions with the executives of many organisations in Australia and overseas. For confidentiality reasons, many of these organisations are not listed below.

Australia

In Australia, the BIE spoke with representatives from chambers of commerce, industry associations, government agencies and private sector companies. These included:

- American Chamber of Commerce (Australia);
- Austrade;
- Australia/Britain Chamber of Commerce;
- Australian Capital Territory Chief Minister's Department;
- Australian Chamber of Commerce and Industry;
- Australian Food Council/Grocery Manufacturers Association of Australia;
- Australian Information Industry Association;
- Baker & McKenzie;
- Department of Business and Employment (Victoria);
- Department of Commerce and Trade (Western Australia);
- Department of Industries and Development (Northern Territory);
- Department of Industry, Science and Technology (Commonwealth);
- Department of the Premier, Economic and Trade Development (Queensland);
- Department of State Development (New South Wales);
- Economist Intelligence Unit;
- Environment Management Industry Association;
- German/Australian Chamber of Commerce;
- South Australian Economic Development Authority;
- State Chamber of Commerce (New South Wales); and
- Tasmania Development and Resources.

Other private sector companies interviewed in Australia included banks, accounting firms and consulting firms.

Europe

The BIE held discussions with individuals and organisations in France, Germany and the United Kingdom. These included:

- Austrade officials;
- Ms V. Comyn, private sector consultant;
- International Pacific Securities;
- Invest in Britain Bureau; and
- Jump Consulting.

Meetings were also held with consultants, banks, investors in Australia and prospective investors in Australia.

Asia

The BIE held discussions with individuals and organisations in Hong Kong, Japan and Singapore. These included:

- Austrade officials (Hong Kong, Japan and Singapore);
- the Australian High Commissioner (Singapore);
- Investment Commissioners in Hong Kong, Japan and Singapore;
- Telstra (Hong Kong); and
- Western Australian Trade Office.

In addition, the BIE spoke with prospective investors, direct investors in Australia and investment intermediaries.

United States of America

The BIE met with many organisations in the United States including:

- ANZUS Business Exchange, Philadelphia;
- Austrade;
- Australia Society;
- Department of Commerce, South Carolina;
- Department of Commerce and Community Affairs, Illinois; and
- Fleur Daniel, location consultants.

Discussions were also held with prospective investors, actual investors in Australia and firms operating in the financial sector.

C Survey of program firms

This survey had two purposes:

- to determine the impact of the program on the locational decisions of foreign investors that had used the program; and
- to gain some indication of the likely effects of those investments on the Australian economy.

The survey was prepared by the BIE. Where contacts for program firms were located within Australia, copies were distributed by the BIE or — for firms' regional headquarters — by DIST. Where contacts were located overseas, copies were distributed by Austrade's investment commissioners because of their close association with those companies. French, Italian and Japanese versions of the survey were prepared by DIST translators and dispatched where appropriate.

The IPFP's database indicated a total population of 'successes' of 187 firms. Questionnaires were dispatched to all these firms and 67 responses were received by the cut-off date, 14 of which were from regional headquarters.

A copy of the survey form is included at section C1.[1] Results of the survey are incorporated in the main body of the report.

[1] The survey covered the experience of firms with both the Investment Promotion Program and the Investment Promotion and Facilitation Program. As the name by which the program is commonly known is the Investment Promotion Program, this name was used on the survey form.

C1 Survey form

Bureau of Industry Economics

INVESTMENT PROMOTION PROGRAM SURVEY

Please complete this survey for the project shown on this label

Purpose of this survey

This survey is to identify the benefits arising from the Australian Government's Investment Promotion Program. The survey is being undertaken by the BIE — a research arm of the Australian Government — on behalf of the Australian Department of Industry, Science & Technology and Austrade. Your completion of this survey will assist in evaluating that Program and contribute to improving its operation.

Due Date

Please return the completed questionnaire by **23 June 1995** to the Bureau of Industry Economics in the enclosed reply-paid envelope or facsimile to +616 276 1323.

Confidentiality

The BIE will treat information obtained through this survey as strictly confidential, with results not attributed to any individual firms.

Help Available

If you have problems **completing** this form, or feel you may have difficulties in meeting the due date, please contact [...] — ☎ [...] or facsimile +61 6 276 1323.

Please indicate the person we should contact if any queries arise regarding this form.

Name:		Telephone Number	( )
Position:		Facsimile Number	( )

AUSTRALIA

Department of INDUSTRY, SCIENCE & TECHNOLOGY

AUSTRADE

AUSTRALIAN TRADE COMMISSION

Please read this first

In this questionnaire, the term ‘project’ refers to the investment project identified on the cover sheet of this questionnaire.

The term ‘Program’ refers to the Australian Government’s Investment Promotion Program, which is jointly administered by Austrade and the Department of Industry, Science and Technology. This umbrella Program encompasses the Regional Headquarters program and the Major Projects Facilitation program.

The term ‘direct investment’ refers to ownership of 10per cent or more of a company in Australia.

Part 1 BACKGROUND INFORMATION

1 Please indicate the *current* status of your project.

> **Note**
> 'Your project' is the project identified on the cover page of this questionnaire.
> Tick one box only.

Now fully or partially operational .... ☐

Committed but not underway .... ☐

Committed but in the planning stage..................... ☐

At feasibility stage.. ☐

May not proceed .... ☐

Definitely will not proceed .... ☐

Other (please specify) .... ☐

....

....

2 Did your company have any direct investment in Australia before this current project?

> **Note**
> Direct investment means owning 10 per cent or more of a company in Australia.

Yes.. ☐

No .... ☐ Go to Question **4**

3 To what extent did this previous direct investment in Australia influence your company's decision to consider locating the project in Australia?

Strong *negative* influence .... ☐

Some *negative* influence .... ☐

No relevant influence .... ☐

Some *positive* influence .... ☐

Strong *positive* influence.. ☐

Part 2 INFORMATION ROLE OF THE PROGRAM

4 Would Australia have been *chosen as the final location* for the project without the *information* provided by the Program?

> **Note**
> Tick one box only.
> The 'Program' is the Investment Promotion Program, which includes Major Projects Facilitation and the Regional Headquarters initiative.

Yes.................................... ☐ Go to Question **5**

Probably .... ☐ Go to Question **6**

Not likely .... ☐ Go to Question **6**

No..................................... ☐ Go to Question **6**

5 What sources — other than the Program — did your company use to obtain the information needed for the decision to locate the project in Australia?

> **Note**
> More than one box may be ticked.

From internal company sources.. ☐

From consultants or market research firms.. ☐

From business contacts in other companies... ☐

From own Government sources (such as its embassy in Australia)................................ ☐

Visits to Australia.. ☐

From other sources (please specify below).. ☐

....

....

6 How important for the *decision to actually locate* the project in Australia was — or is — the *information* provided through the Program?

Note
Tick one box only.

Of no importance.. ☐

Of minor importance.. ☐

Of moderate importance .... ☐

Of major importance .... ☐

7 How would your company have obtained this information without the Program?

Note
More than one box may be ticked.

Would not have attempted to obtain the information.. ☐

From internal company sources.. ☐

From consultants or market research firms.. ☐

From business contacts in other companies.. ☐

From own Government sources (such as its embassy in Australia).................................. ☐

Visits to Australia.. ☐

From other sources (please specify below).. ☐

....

....

Part 3 FACILITATION AND 'MATCHMAKING' ROLE OF THE PROGRAM

8 Please indicate the main areas in which the *facilitation services* of the Program assisted (or are assisting) your company.

Note
You may tick more than one box.

None ☐ Go to Question **12**
Commonwealth Government approvals (such as immigration) ☐
State, Territory or Local Government approvals ☐
Site visits ☐
Negotiations with public utilities (such as water or electricity) ☐
Matching with business 'partners' ☐
Other (please briefly describe below) ☐

....
....

9 How important was (is) the Program's assistance with the following areas?

	Not applicable	Minor importance	Moderate importance	Major importance
Commonwealth Government approvals (such as immigration)	☐	☐	☐	☐
State, Territory or Local Government approvals	☐	☐	☐	☐
Site visits	☐	☐	☐	☐
Negotiations with public utilities (such as water, electricity)	☐	☐	☐	☐
Matching with business 'partners'	☐	☐	☐	☐
Other (please briefly describe below)	☐	☐	☐	☐

....
....

10 How would you have obtained the facilitation services provided through the Program if the program did not exist?

Note
You may tick more than one box.

Directly from Australian government departments.. ☐

Directly from State or Territory government departments.. ☐

Through private firms (such as consultants or legal or accounting firms)..................... ☐

Through your own Government's sources (such as its embassy in Australia).............. ☐

Through other means (please briefly describe below) .... ☐

....

....

....

11 Why did your company use the facilitation services offered under the Program — rather than use facilitation services available through other avenues?

Note
You may tick more than one box.

No fee for service was involved.. ☐

Program staff offered more effective service than available elsewhere......................... ☐

The program had already played a major information provision role........................... ☐

Other reasons (please briefly specify below)... ☐

....

....

....

12 Did your project involve (or will it involve) a joint-venture partner or alliance?

> **Note**
> Tick one box

No .... ☐ Go to Question **15**

Yes... ☐

13 Did the Program play a role in 'matchmaking' between this company and a joint-venture partner or alliance?

> **Note**
> Tick one box.

Program played no role............................... ☐ Go to Question **15**

Program played a minor role....................... ☐

Program played a substantial role................ ☐

Program played a critical role...................... ☐

14 Would the joint-venture partnership or alliance have proceeded in the absence of the matchmaking role of the Program?

> **Note**
> Tick one box.

Yes... ☐

Probably.................................... ☐

Not likely .... ☐

No .... ☐

Do not know .... ☐

Part 4 EFFECTS OF YOUR INVESTMENT ON AUSTRALIA

15 Did this company directly employ people in Australia in the year immediately prior to <u>this project</u> first employing anyone in Australia?

No .... ☐

Yes... ☐ Please provide details below

Note
Approximate figures will suffice. Please exclude persons employed in any construction phase.

Year		Number		Number
	Total employees		**Of these, how many were skilled employees?**	

16 Please indicate the number of persons *currently* employed and, if applicable, persons *expected* to be employed by this company in Australia when this project is fully operational.

Note
Close estimates will suffice. Please exclude persons employed in any construction phase.

	Number *currently* employed	**Number *expected* to be employed**
Total employees		
Of these, how many were skilled employees?		

17 What is the *current* value of your investment in this project and, if applicable, the *expected* value of investment when fully operational?

Note
Close estimates will suffice. Please specify currency.

Current value ....

Expected value ....

18 Will (or has) the project lead (led) to the introduction of new workforce skills in Australia?

No .... ☐

Do not know .... ☐

Yes currently introduced........... ☐ Please briefly describe below

....

....

....

Yes expected to be introduced... ☐ Please briefly describe below

....

....

....

19 Will (or has) the project lead (led) to the introduction of new or superior quality products or services in Australia?

No .... ☐

Do not know .... ☐

Yes currently introduced............ ☐ Please briefly describe below

....
....
....

Yes expected to be introduced... ☐ Please briefly describe below

....
....
....

20 Will (or has) the project lead (led) to the introduction of new process technology in Australia?

No .... ☐

Do not know .... ☐

Yes currently introduced............ ☐ Please briefly describe below

....
....
....

Yes expected to be introduced... ☐ Please briefly describe below

....
....
....

21 Will (or has) the project lead (led) to the introduction of new management practices in Australia?

No .... ☐

Do not know .... ☐

Yes currently introduced........... ☐ Please briefly describe below

....
....
....

Yes expected to be introduced... ☐ Please briefly describe below

....
....
....

22 Will (or has) the project lead (led) to the introduction of new overseas markets for Australia?

No .... ☐

Do not know .... ☐

Yes currently introduced........... ☐ Please briefly describe below

....
....
....

Yes expected to be introduced... ☐ Please briefly describe below

....
....
....

23 In the long term, what percentage of total sales from the project is expected to be outside Australia?

Note
Close estimates will suffice.

Sales outside Australia .... %

24 If this project has (will) lead to other benefits for Australia, please describe these below.

....

....

....

....

....

....

....

Thank you for your cooperation in completing this questionnaire.

D Perceptions survey

Part of the argument for government involvement in promoting Australia as a location for FDI rests on the existence of negative perceptions and a general lack of knowledge about Australia as a suitable location among potential foreign investors.

To help examine this argument, the BIE designed a telephone survey to assess potential foreign investors' perceptions and knowledge of Australia as an investment location. A copy of the survey form is in section D7. The survey was administered by Frank Small and Associates to 31 firms in Japan, 30 firms in the United States and 30 firms in the United Kingdom. Cost precluded surveying a larger number of firms or countries.

The survey deliberately targeted firms not in the Investment Promotion and Facilitation Program, as the objective was to establish whether misperceptions or a lack of awareness existed, not whether the program had an impact on potential investors' perceptions or awareness. The impact of the program was examined by a separate BIE survey of program firms described in appendix C.

Firms surveyed were sought from three categories, with approximately ten firms in each category per country. The categories were:

Type 1 (AU) — firms with direct investment (subsidiaries, branches) in Australia;

Type 2 (AP) — firms with direct investment in other Asia–Pacific countries; and

Type 3 (NO) — firms with no involvement in Australia or Asia.

Four groups of questions were asked:

1. discriminator questions about the firm's export propensity and FDI propensities, and the extent and sources of information about Australia;
2. cost based questions about Australia's costs relative to the country in which the firm was located and relative to those of Singapore;
3. market based questions about industrial relations and the size of Australia's gross domestic product (GDP) relative to selected countries' GDPs; and
4. policy related questions about Australia's rate of inflation and the firm's perception of the Australian government's attitude towards FDI.

Results indicate that the majority of firms surveyed do not consider themselves to be well informed about Australia's business environment. While results differed across countries, firms generally demonstrated a poor understanding of Australia's relative costs, industrial relations and market size. Moreover, the surveyed firms had poor perceptions of Australian macroeconomic policy performance (as expressed through the inflation rate) and the government's attitude towards foreign investment.

D1 Sample characteristics

Overall, 91 firms were surveyed, with 31 from Japan, 30 from the United Kingdom and 30 from the United States. There were 34 firms with direct investment in Australia (type 1 [AU] firms), 25 firms with direct investment in Australia (type 2 [AP] firms) and 32 firms with direct investment in Australia (type 3 [NO] firms).

Turnover

Around 20 per cent of the firms had sales turnovers of less than A$100 million and around half had sales turnovers of over A$500 million (table D1).

Table D1 Number of survey respondents, by country and sales turnover

	Sales turnover, A$million							
	Na	*Below 100*	*101 to 500*	*501 to 1 000*	*1 001 to 5 000*	*5 001 to 10 000*	*Above 10 000*	*Number of responses*
Japan	1	1	4	4	14	1	6	31
UK	5	10	9	3	2	0	1	30
USA	2	9	7	2	6	1	3	30
Total	**8**	**20**	**20**	**9**	**22**	**2**	**10**	**91**
Per cent	8.8	22.0	22.0	9.9	24.2	2.2	11.0	100

Note: **Na** not answered.
Source: BIE perceptions survey.

Export activities

Firms were asked about the level of their exports as a percentage of their total sales or export propensity. Over 87 per cent of respondents indicated that exports were less than 50 per cent of sales, with 23 per cent of firms not exporting at all (table D2).

Table D2 Survey respondents, by level of exports as a percentage of total sales

	Exports as a percentage of total sales						
	None	*1 to 25%*	*26 to 50%*	*51 to 75%*	*Over 75%*	*Do not know*	*Number of responses*
Number	21	32	21	11	2	4	91
Per cent	23.1	35.2	23.1	12.1	2.2	4.4	100

Source: BIE perceptions survey.

FDI activities

Firms were asked whether they had investments in the Asia–Pacific region and Australia. Firms with investment in the region were then asked to estimate what proportion of their total foreign investment was in the Asia–Pacific. Firms that had undertaken FDI in Australia were asked what proportion of their total FDI in the Asia–Pacific region was in Australia.

FDI activities in the Asia–Pacific region

Type 1 and 2 firms typically had less than 50 per cent of their total FDI in the Asia–Pacific region, with the majority of firms investing between 10 and 25 per cent (table D3).

Most type 1 (AU) firms invested between 10 and 25 per cent of their total FDI in the Asia–Pacific region. type 2 (AP) firms are fairly evenly distributed.

Table D3 Survey respondents by country and firm type and by proportion of FDI in the Asia–Pacific region

	Proportion of FDI in Asia–Pacific region						
	Below 10%	*10 to 25%*	*26 to 50%*	*51 to 75%*	*Over 75%*	*Do not know*	*Number of responses*
	% of firms						
Japan	15.8	26.3	31.6	5.3	5.3	15.8	19
UK	35.0	35.0	20.0	5.0	5.0	0.0	20
USA	25.0	50.0	5.0	0.0	10.0	10.0	20
Type 1 (AU)	20.6	44.1	14.7	5.9	5.9	8.8	34
Type 2 (AP)	32.0	28.0	24.0	0.0	8.0	8.0	25
All (AU and AP) firms	25.4	37.3	18.6	3.4	6.8	8.5	59

Source: BIE perceptions survey.

Table D4 Distribution of survey respondents by country and by proportion of FDI in Australia

	Proportion of FDI in Australia						
	Below 10%	*10 to 25%*	*26 to 50%*	*51 to 75%*	*Over 75%*	*Do not know*	*Number of responses*
	% of firms						
Japan	36.4	18.2	9.1	9.1	18.2	9.1	11
UK	9.1	36.4	18.2	9.1	27.3	0.0	11
USA	66.7	8.3	0.0	8.3	8.3	8.3	12
All (AU) firms	38.2	20.6	8.8	8.8	17.7	5.9	34

Source: BIE perceptions survey.

FDI activities in Australia

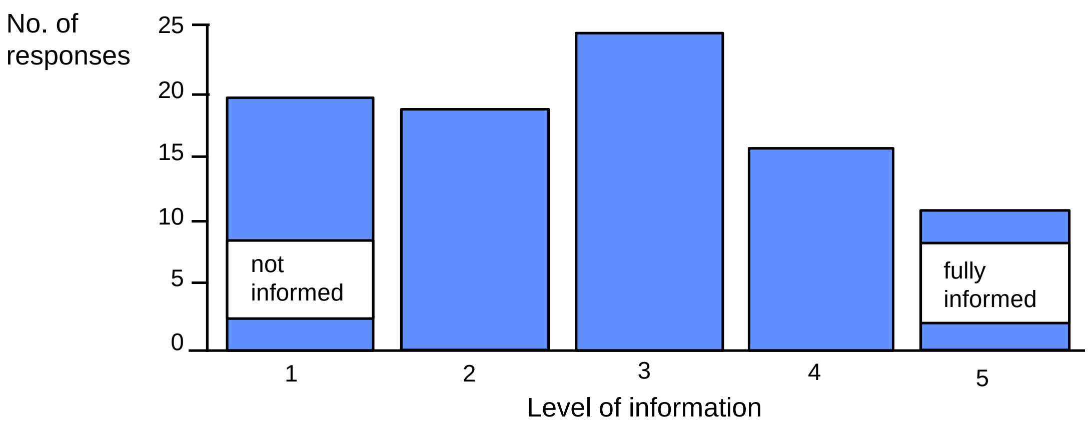
Of the 34 firms with direct investment in Australia around 40 per cent had less than 10 per cent of their Asia–Pacific FDI in Australia. However, there was considerable variation, with 9 per cent of United Kingdom firms in this category compared with around 67 per cent of United States firms (table D4).

Information

Extent of knowledge

Firms were asked to rank how they perceived their current knowledge of the Australian business environment on a five point scale — where a 'one' indicates that they are 'not at all informed' and a 'five' indicates that they are 'fully informed'. Only around 12 per cent of firms surveyed consider themselves fully informed about Australia's business environment (figure D1). Around 22 per cent of surveyed firms indicated that they considered themselves not informed at all of the Australian business environment.

Figure D1 Survey responses by perceived knowledge of the Australian business environment

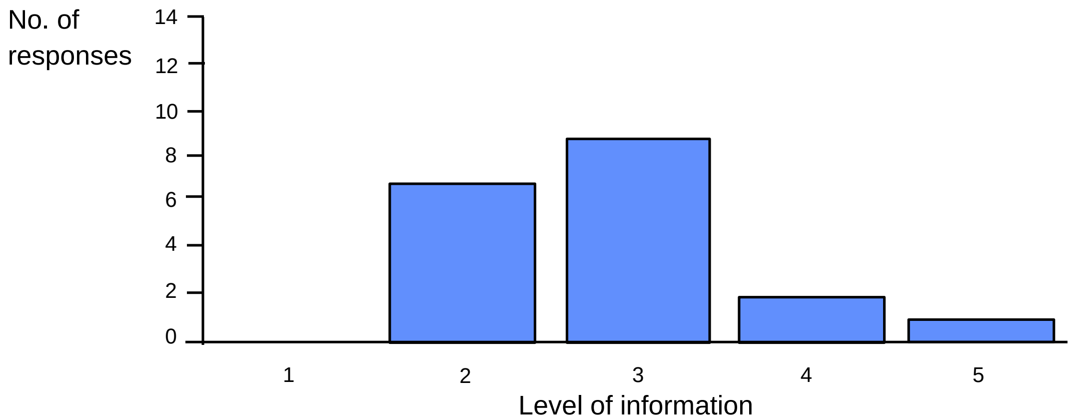


Source: BIE perceptions survey.

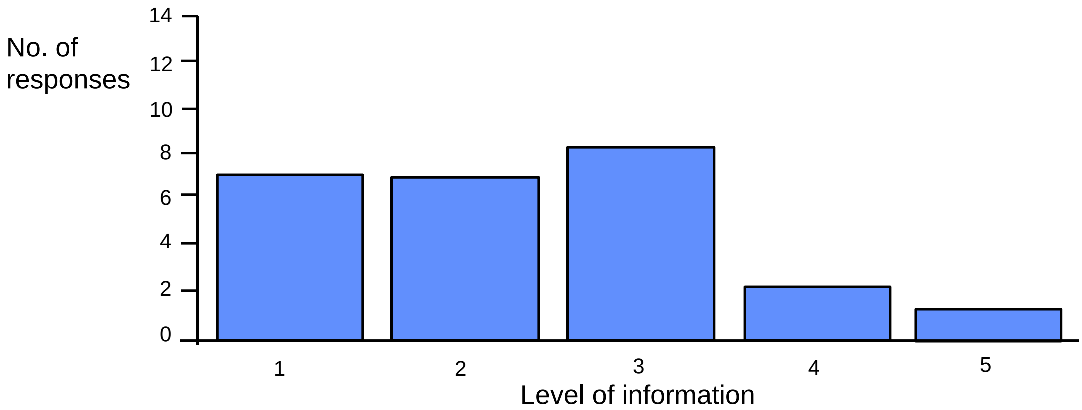
Responses by firm type show a broad correlation with what would be intuitively expected. Type 1 firms — those with links with Australia — indicated the greatest level of knowledge about Australia's business environment. Type 2 firms — with links in the Asia–Pacific region — considered themselves less well informed and type 3 firms — with no involvement in the Asia–Pacific region — were skewed towards not at all informed (figure D2).

Figure D2 Survey responses by firm type and perceived knowledge of the Australian business environment

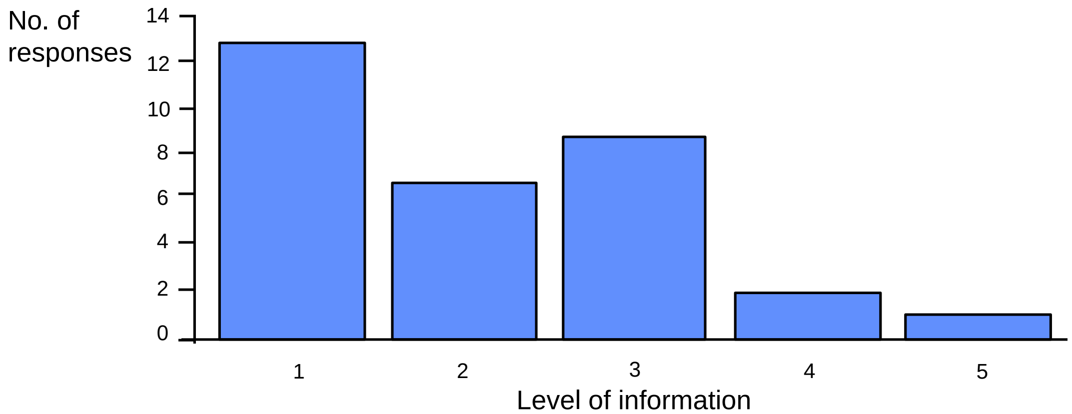
Type 1 (AU) firms



Type 2 (AP) firms



Type 3 (NO) firms



Source: BIE perceptions survey.

Sources of information

Firms were asked how important various sources of information were for understanding the business environment in Australia. These sources were:

- visits to Australia;
- Australian subsidiaries, branches, agents or partners;
- regular publications (such as newspapers and magazines);
- colleagues or acquaintances outside their company;
- private sector firms (such as consultants and banks); and
- Australian government agencies (such as Austrade).

Categories were: no importance, minor importance, moderate importance and major importance.

Firms surveyed in the United Kingdom and the United States rated visits to Australia and Australian subsidiaries, branches, agents or partners highly as sources of information (table D5).

Table D5 Survey respondents' sources of information about Australia and by importance of sources

	Not answered %	*No importance* %	*Minor importance* %	*Moderate importance* %	*Major importance* %	*Number of responses*
Visits to Australia						
Japan	25.8	48.4	12.9	9.7	3.2	31
UK	26.7	13.3	13.3	13.3	33.3	30
US	13.3	23.3	0.0	10.0	53.3	30
Australian subsidiaries						
Japan	35.5	48.4	9.7	3.2	3.3	31
UK	26.7	16.7	6.7	3.3	46.7	30
US	13.3	10.0	10.0	6.7	60.0	30
Regular publications						
Japan	25.8	0.0	51.6	19.4	3.2	31
UK	26.7	10.0	36.7	20.0	6.7	30
US	13.3	30.0	40.0	13.3	3.3	30
Colleagues or acquaintances						
Japan	25.8	6.5	25.8	41.9	0.0	31
UK	26.7	6.7	20.0	43.3	3.3	30
US	13.3	13.3	30.0	26.7	16.7	30
Private sector firms						
Japan	25.8	9.7	38.7	22.6	3.2	31
UK	26.7	26.7	23.3	20.0	3.3	30
US	13.3	30.0	33.3	10.0	13.3	30
Australian government						
Japan	25.8	9.7	38.7	25.8	0.0	31
UK	26.7	40.0	26.7	6.7	0.0	30
US	13.3	33.3	36.7	16.7	0.0	30

Source: BIE perceptions survey.

D2 Cost based questions

A set of survey questions were asked to determine the perceptions of Australian costs relative to other countries' costs. Perceived cost relativities were tested against actual costs to determine misperceptions.

Firms were asked to rate a selection of Australia's business costs relative to costs in their own country and those in Singapore. Singapore was selected as it is one of Australia's major Asia–Pacific competitors for FDI. Options were: Australia's costs are more than 10 per cent higher, approximately the same, or more than 10 per cent lower than the particular location. Cost data used in the analysis came from the IPFP and other sources such as the Jones Lang Wootton (JLW) property guide (JLW 1994).

Relative costs: Japan, United Kingdom and United States

Japanese firms surveyed had an accurate perception of Australian business costs relative to those in Japan. As Japanese costs are quite high relative to those in the rest of the world this may not be surprising (table D6).

Table D6 Distribution of Japanese survey respondents by perceptions of Australian business costs relative to Japanese costs

	Higher than Japan %	*Same as Japan %*	*Lower than Japan %*	*Do not know %*	*Number of responses*
Labour	0.0	9.7	***90.3***	0.0	31
Electricity	0.0	3.2	***87.1***	9.7	31
Central business district office rents	0.0	0.0	***93.6***	6.5	31
Industrial land	0.0	0.0	***87.1***	12.9	31
International telephone	6.5	3.2	***64.5***	25.8	31

Notes: Correct responses are in bold italics.
Sources: BIE perceptions survey, BIE (1995f); DBE (1994); DIST (1994); JLW (1994).

Responses from United Kingdom firms indicated a relatively poor understanding of Australian costs relative to those in their own country (table D7). Awareness of labour costs was particularly poor (about 7 per cent correct).

Table D7 Distribution of UK survey respondents by perceptions of Australian business costs relative to UK costs

	Higher than UK %	Same as UK %	Lower than UK %	Do not know %	Number of responses
Labour	40.0	36.7	***6.7***	16.7	30
Electricity	13.3	***13.3***	13.3	60.0	30
Central business district office rents	10.0	6.7	***53.3***	30.0	30
Industrial land	0.0	0.0	***63.3***	36.7	30
International telephone	10.0	30.0	***20.0***	40.0	30

Notes: Correct responses are in bold italics.
Sources: BIE perceptions survey, BIE (1995f), Department of Business and Employment (1994), DIST (1994), Jones Lang Wootton (1994).

In the United States overall perceptions of Australian costs were the worst (table D8). Awareness of relative telephone and electricity costs was particularly poor (0 per cent and 3 per cent respectively).

Table D8 Distribution of US survey respondents by perceptions of Australian business costs relative to US costs

	Higher than US %	Same as US %	Lower than US %	Do not know %	Number of responses
Labour	13.3	26.7	***40.0***	20.0	30
Electricity	10.0	13.3	***3.3***	73.3	30
Central business district office rents	16.7	***16.7***	23.3	43.3	30
Industrial land	10.0	10.0	***36.7***	43.3	30
International telephone	40.0	10.0	***0.0***	50.0	30

Notes: Correct responses are in bold italics.
Sources: BIE perceptions survey, BIE (1995f), Department of Business and Employment (1994), DIST (1994), Jones Lang Wootton (1994).

Relative costs: Singapore

Japanese respondents' perceptions of Australia's costs relative to those of Singapore are significantly less accurate than their perceptions of their own country's relative costs (table D9). For example, only about 40 per cent of firms' perceptions about relative labour costs and only 20 per cent about relative telephone costs were accurate. Firms surveyed in the United Kingdom and the United States exhibited a lower level of understanding of Australia's costs relative to Singapore's costs than their Japanese counterparts. The poorest understanding of Australia's relative attractiveness was of labour and telephone costs.

Overall, Japanese survey firms exhibited a better awareness of Australia's relative costs, outperforming United Kingdom and United States firms in all categories except international telephone charges.

Table D9 Distribution of survey respondents by perceptions of Australia's business costs relative to those of Singapore, by country

	Higher than Singapore %	*Same as Singapore %*	*Lower than Singapore %*	*Do not know %*	*Number of responses*
Labour					
Japan	41.9	6.5	***38.7***	12.9	31
UK	50.0	0.0	***23.3***	26.7	30
USA	26.7	3.3	***23.3***	46.7	30
Electricity					
Japan	3.2	12.9	***71.0***	12.9	31
UK	10.0	6.7	***36.7***	46.7	30
USA	0.0	3.3	***33.3***	63.3	30
Central business district office rents					
Japan	12.9	3.2	***77.4***	6.5	31
UK	6.7	0.0	***63.3***	30.0	30
USA	6.7	6.7	***40.0***	46.7	30
Industrial land					
Japan	3.2	12.9	***71.0***	12.9	31
UK	0.0	3.3	***60.0***	36.7	30
USA	3.3	0	***43.3***	53.3	30
International telephone					
Japan	19.4	25.8	***19.4***	35.5	31
UK	13.3	16.7	***23.3***	46.7	30
USA	0.0	20.0	***16.7***	63.3	30

Notes: Correct responses are in bold italics.
Sources: BIE perceptions survey, BIE (1995f), Department of Business and Employment (1994), DIST (1994), Jones Lang Wootton (1994).

D3 Market based questions

Market based factors influence the direction and extent of FDI. Questions on the level of Australian strike activity and the relative size of Australian GDP (as a proxy for market size) were chosen by the BIE as they have been shown to be important issues for potential investors (BIE 1993). Anecdotal evidence, principally from IPFP staff, suggests that many potential investors focus on Australian industrial relations. Empirical evidence (see chapter 2) suggests that market size is also a major determinant of FDI flows.

Industrial relations

Responses to a question on strike activity in Australia tend to confirm anecdotal evidence of perceptions that Australia has the same level of strike activity as five years ago. In fact, days lost per 1000 employees in Australia fell by around 65 per cent over the past five year period covered by the ABS (ABS 1996).

The perceptions of the Japanese and United Kingdom respondents were more accurate than those of United States respondents — 42 and 43 per cent of Japanese and United Kingdom respondents respectively answered correctly compared with 20 per cent of United States firms (table D10).

Some 50 per cent of firms with investment in Australia (type 1 firms) answered correctly, as opposed to 28 per cent of firms with Asia–Pacific investments (type 2 firms) and 25 per cent of firms with no involvement in the region (type 3 firms).

Table D10 Distribution of survey respondents by perceptions of Australian strike activity, by country and firm type

	Increased	*About the same*	*Fallen*	*Do not know*	*Number of responses*
	%	*%*	*%*	*%*	
Japan	3.2	22.6	***41.9***	32.3	31
UK	10.0	33.3	***43.3***	13.3	30
USA	6.7	43.3	***20.0***	30.0	30
Type 1 (AU)	2.9	35.3	***50.0***	11.8	31
Type 2 (AP)	4.0	20.0	***28.0***	48.0	30
Type 3 (NO)	12.5	40.6	***25.0***	21.9	30
All respondents	6.6	33.1	***35.1***	25.2	91

Notes: Correct responses are in bold italics.
Sources: BIE perceptions survey, ABS (1996).

Relative Australian gross domestic product

Market size and expected growth greatly influence firms' decisions on where to direct their foreign investments. GDP and GDP growth were used as proxies for market size and growth.

Respondents were asked to compare Australia's GDP with the GDPs of other economies. They were asked whether Australia's GDP is more than 10 per cent higher, approximately the same, or more than 10 per cent lower than six other countries' GDPs. Around 79 per cent of participants correctly stated that Australia's GDP is more than 10 per cent lower than the United Kingdom's. However, their ranking for Australia against other countries, especially South Korea, were less accurate (table D11).

Table D11 Distribution of survey respondents by perceptions of the size of the Australian economy relative to other economies

	Correct	*Incorrect*	*Do not know*	*Number of responses*
	%	*%*	*%*	
Singapore	50.6	39.6	9.9	91
Canada	37.4	58.3	4.4	91
United Kingdom	79.1	17.6	3.3	91
Hong Kong	39.6	48.4	12.1	91
Malaysia	61.5	30.8	7.7	91
South Korea	12.1	80.2	7.7	91
All respondents	46.7	45.8	7.6	91

Notes: 'Correct' responses are defined as those that correctly stated whether Australia's GDP was higher, lower or the same as the particular country.
Sources: BIE perceptions survey; IMF (1994).

Japanese firms performed relatively well, with an average of 51 per cent answering correctly. Around 44 per cent of United Kingdom and US firms answered correctly. The extent of misperceptions was relatively even across all types of firms (table D12).

Table D12 Distribution of survey respondents by perceptions of the relative size of the Australian economy and by country and type of firm

	Correct	*Incorrect*	*Do not know*	*Number of responses*
	%	*%*	*%*	
Japan	51.1	47.9	1.1	31
UK	44.4	44.4	11.1	30
USA	44.4	45.0	10.6	30
Type 1	47.5	45.1	7.4	34
Type 2	50.9	42.8	6.3	25
Type 3	42.3	47.9	9.8	32
All respondents	46.7	45.8	7.6	91

Sources: BIE perceptions survey; IMF (1994).

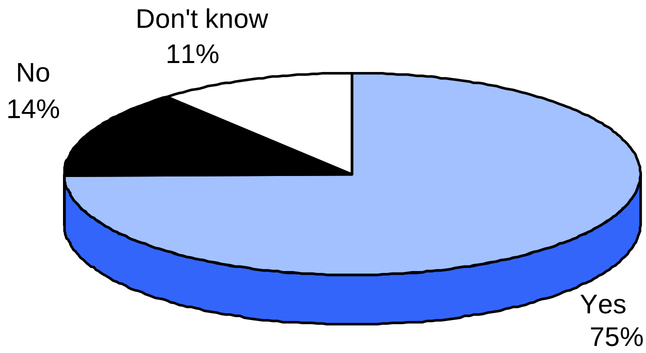
D4 Government policy questions

To assess perceptions of government policy, survey firms were asked about the Australia's inflation record and the Australian government's attitude towards FDI. These two questions were proxies for questions about government macroeconomic management.

Government attitude towards FDI

Respondents were asked whether they considered the Australian government welcomed FDI. Around 75 per cent of the firms surveyed believed that the Australian government welcomes FDI (figure D3). Some 14 per cent of those surveyed did not hold this view.

Figure D3 Does the Australian government welcome FDI?



Source: BIE perceptions survey.

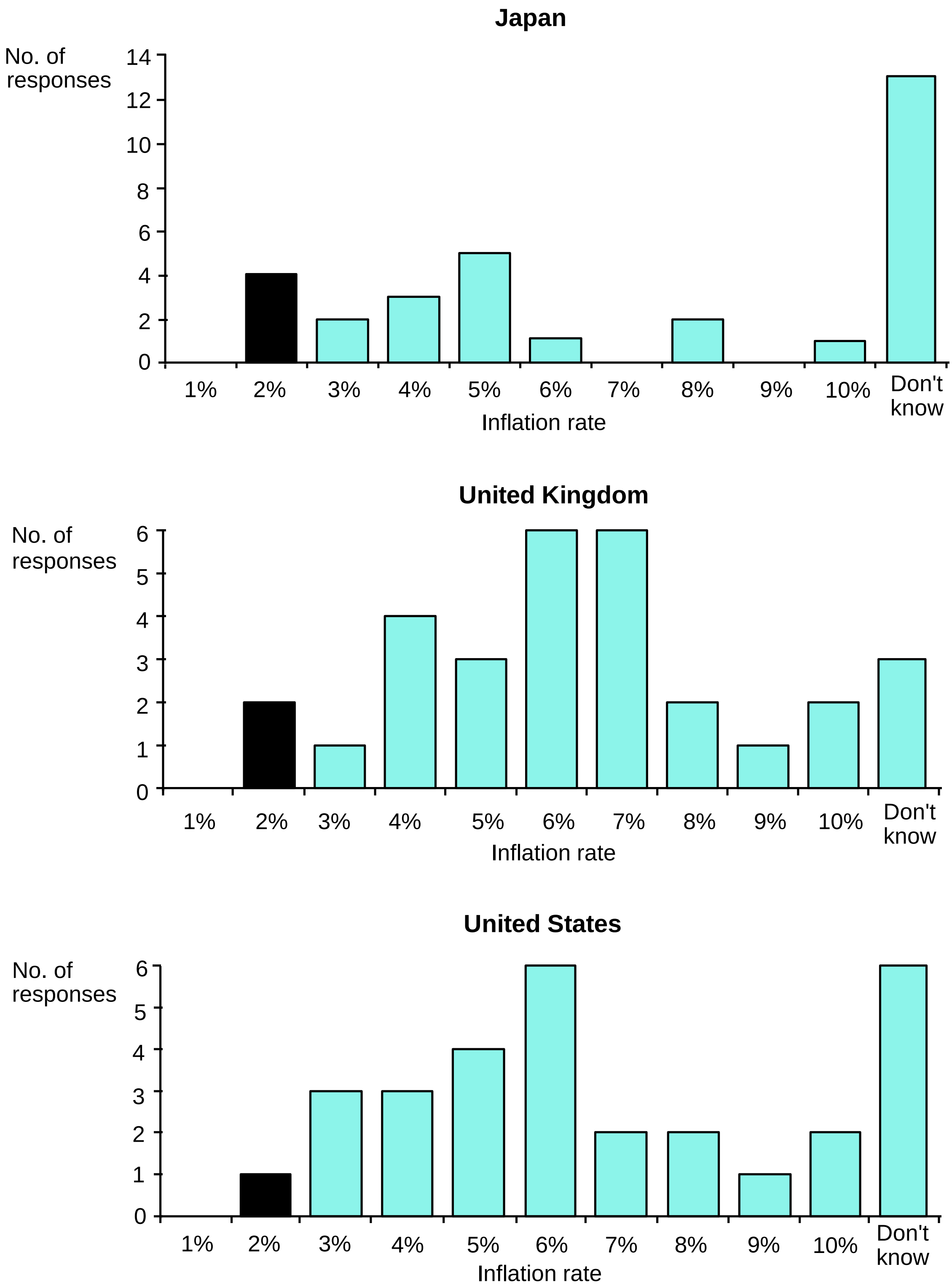
Australia's inflation record

Investors view a country's rate of inflation as a proxy for a host of factors (for example, a government's macroeconomic policy and control). Generally, lower is better and higher is worse.

Australia's average rate of inflation over the three year period 1993–95 was around 2 per cent. Most firms' perceptions of Australia's average inflation rate over this period were incorrect. No firm thought that Australia's average inflation rate was lower than actually recorded (figure D4). United Kingdom and United States' responses were especially poor, with a large number of respondents suggesting an average rate of inflation much higher than the actual rate.

The responses exhibited a widespread poor appreciation of the major turnaround in Australia's inflation rate over the past three years.

Figure D4 Overseas perceptions of the average Australian inflation rate over the period 1993–95



Note: The average headline rate of inflation in Australia was 2 per cent over the period 1993–95.
Source: BIE perceptions survey.

D5 Other questions

Two other questions were asked, one on perceptions of Australia's science and technology capability and another on Australia's relative geographical proximity to Asia.

Respondents were asked how they ranked Australia's science and technology capability relative to their own country and another six countries (table D13). Australia is perceived by respondents to have similar capabilities to those of Singapore, South Korea and Taiwan.

Table D13 Perceptions of the science and technology capability of the Australian economy

	Higher than (country)	*Same as (country)*	*Lower than (country)*	*Do not know*	*Number of responses*
	%	*%*	*%*	*%*	
Australia relative to respondents' countries					
Japan	0.0	12.9	87.1	0.0	31
UK	0.0	26.7	60.0	13.3	30
USA	0.0	26.7	56.7	16.7	30
Australia relative to other countries					
Canada	5.5	60.4	19.8	14.3	91
Malaysia	59.3	15.4	11.0	14.3	91
Singapore	30.8	28.6	27.5	13.2	91
South Korea	24.2	31.9	26.4	17.6	91
Sweden	13.2	33.0	27.5	26.4	91
Taiwan	29.7	27.5	25.3	17.6	91

Source: BIE perceptions survey.

The majority of respondents named Australia as the country geographically closest to South East Asia (table D14). Survey participants were given a choice of South Africa, Australia or New Zealand.

Table D14 Perceptions of relative proximity to South East Asia

	South Africa	*Australia*	*New Zealand*	*Number of responses*
	%	*%*	*%*	
Japan	0.0	100	0	31
UK	0.0	100	0	30
USA	0.0	93	7	30

Source: BIE perceptions survey.

D6 Conclusions

To obtain a crude measure of overall perceptions, the BIE summarised the responses to questions 10 to 15 (excluding question 13). An equal weight was given to each question. Overall the responses suggest foreign decision-makers have poor perceptions of Australia as a location for FDI. Japanese firms have the most positive perceptions, with around half of all responses correct. (table D15). They were followed by firms from the United Kingdom and then firms from the United States (34 and 23 per cent respectively).

Table D15 Summary of perceptions, by country and firm type

	Correct	*Incorrect*	*Do not know*	*Number of responses*
	%	*%*	*%*	
Japan	49.2	30.3	20.5	31
UK	34.3	44.5	21.2	30
USA	23.7	44.1	32.2	30
Type 1 (AU)	40.1	42.9	17.1	34
Type 2 (AP)	36.6	30.6	32.8	25
Type 3 (NO)	30.1	43.0	26.8	32
Responses for all firms	35.7	39.6	24.7	91

Source: BIE perceptions survey.

A higher proportion of the responses of type 1 firms — those with FDI in Australia — were correct than were the responses of type 2 and type 3 firms. But overall a marginally higher proportion of firms answered incorrectly than correctly. The results of the survey lead the BIE to conclude that there are significant misperceptions of Australia as a location for FDI among foreign firms.

D7 Survey form

Bureau of Industry Economics

PERCEPTIONS OF AUSTRALIA AS A DESTINATION FOR INVESTMENT

QUESTIONNAIRE
(Telephone interview)

INVESTMENT PROMOTION AND FACILITATION PROGRAM: AN EVALUATION BY THE BUREAU OF INDUSTRY ECONOMICS

BACKGROUND INFORMATION FOR INTERVIEWERS

The Bureau of Industry Economics is evaluating the Australian Investment Promotion and Facilitation Program. This telephone survey will assist that evaluation. The Bureau will treat as confidential information from the completed questionnaire.

The following key steps are involved in the survey:

1. Select the interviewers to conduct the survey and make sure they are comfortable with the material in the survey form (ie that they understand what the questions mean, what information the Bureau seeks and what information they need to complete the interview form).

2. Select 30 firms to survey. Approximately one third from a random selection of companies with investment links with Australia, one third from a random selection of companies with international investment links with the Asia–Pacific region, and one third from a random selection of companies with no significant investments in Australia or the Asia–Pacific region.

3. Conduct the interviews, completing an interview form for each interview during the time of the interview.

4. Make it clear to respondents that the Bureau will release **no** information identifying individual organisations.

5. Interviewers must ask the questions in the form that they are drafted — to ensure consistency between questionnaire responses. Sections which interviewers are to address to respondents are in **large, bold type** Respondents should be offered ***'do not know'*** question options only after they have clearly considered the question and indicated that this option may be appropriate.

6. Ensure you have provided all the descriptive details for each company.

7. Check with [...] or [...] ☎ [...] or [...], fax [...]. on any points needing clarification.

Part 1 RESPONDENT BACKGROUND INFORMATION

Note for interviewer Obtain prior to interview, where possible, to reduce time demanded of respondent.

Country of person interviewed...

Name of interviewee ....

Position held ....

Telephone number...Fax number...

Name of company

Postal address.......... ....

....

....

....

....

Company's approximate 1994 turnover...

Main activity of interviewee's business...

Note for interviewer Information on turnover and major activity is required only to classify responses in terms of company size and nature of business. Stress to respondent that the BIE will treat their answers to this questionnaire in the strictest confidence.

1 Of your company's total sales, could you please tell me *approximately* what percentage do exports account for?

Note for interviewer Tick box corresponding to the respondent's answer.

0 per cent	☐
Between 0 and 25 per cent	☐

Between 26 and 50 per cent ☐
Between 51 and 75 per cent ☐
More than 75 per cent ☐
Do not know ☐

2 **Does your company have *direct* investments in businesses in other countries (by direct investments I mean ownership or part-ownership)?**

Yes ☐ Go to Question **3**
No ☐ Go to Question **7**

3 **Are any of these direct investments 'in other countries' in the Asia–Pacific region?**

> **Note for interviewer**
>
> If asked, for the purposes of this question, the Asia–Pacific region includes Japan, Korea, Taiwan, China, Hong Kong, Vietnam, Thailand, Malaysia, Singapore, Philippines, Indonesia, Australia, New Zealand, Fiji, Papua New Guinea.

Yes ☐ Go to Question **4**
No ☐ Go to Question **7**

4 **Approximately what proportion of these direct investments 'in other countries' is in the Asia–Pacific region?**

- Less than 10 per cent ☐
- Between 10 and 25 per cent ☐
- Between 26 and 50 per cent ☐
- Between 51 and 75 per cent ☐
- More than 75 per cent ☐
- Do not know ☐

5 **Are any of these direct investments in Australia?**

Yes	☐	Go to Question **6**
No	☐	Go to Question **7**

6 **Approximately what proportion of direct investment in the Asia–Pacific region is in Australia?**

- Less than 10 per cent ☐
- Between 10 and 25 per cent ☐
- Between 26 and 50 per cent ☐
- Between 51 and 75 per cent ☐
- More than 75 per cent ☐
- Do not know ☐

7 **To what extent do you consider yourself informed about the business environment in Australia — on a scale of 1 through to 5. A 1 would indicate *not at all informed* on the business environment in Australia. A 5 would indicate you consider you are *fully informed*.**

1	**2**	**3**	**4**	**5**
☐	☐	☐	☐	☐

[If respondents answer 1, Go to Question **9]**

8 **I will now read out some possible sources of information about the business environment in Australia.**
For each source, could you tell me how important it has been for your company in understanding the business environment in Australia.
I am interested in knowing if each source has been of minor importance, moderate importance, major importance or of no importance at all.

Note to interviewer

For the first source, ask 'How important have visits to Australia been to your company in understanding the business environment in Australia? Thereafter, just read through the sources.

	Degree of importance			
	No	Minor	Moderate	Major
Visits to Australia	☐	☐	☐	☐
Australian subsidiaries, branches, agents or partners	☐	☐	☐	☐
Regular publications (such as newspapers, magazines)	☐	☐	☐	☐
Colleagues or acquaintances outside your company	☐	☐	☐	☐
Private sector firms (such as consultants, banks)	☐	☐	☐	☐
Australian government agencies (such as Austrade)	☐	☐	☐	☐

8a **Are there other sources which are important for your company that I haven't listed?**

Note for interviewer

Ask for a **brief** description of any other sources, and their **degree of importance** in terms of minor importance or of moderate to major importance.

....
....
....
....

Part 2. PERCEPTIONS OF THE AUSTRALIAN BUSINESS ENVIRONMENT

9 **I would like your opinion about Australia's *science and technology* capability compared with various countries. Compared with [**insert country from list below**], do you consider Australia's capability is *higher, approximately the same* as that country, or *lower*.**

> **Note for interviewer**
> Ask this question for each country. '**Your own country**' refers to where the interviewee is located, not their country of origin or nationality. Where '**Your own country**' is also one of those from the ensuing list, delete that country from those read out to the respondent.

	Higher	Same	Lower	Do not know
Your own country	☐	☐	☐	☐
Canada	☐	☐	☐	☐
Malaysia	☐	☐	☐	☐
Singapore	☐	☐	☐	☐
South Korea	☐	☐	☐	☐
Sweden	☐	☐	☐	☐
Taiwan	☐	☐	☐	☐

10 **I would also like your view on how certain business costs in Australia compare with [**insert country of interviewee location**]. For [**insert cost category from list**], do you believe *Australia's* costs are *more than ten per cent higher*, approximately the *same*, or *more than ten per cent lower* than [**country of interviewee**].**

> **Note for interviewer**
> Read through the list, marking the ranking of Australia relative to country of interviewee.

Cost Category	Higher	Same	Lower	Do not know
Labour costs	☐	☐	☐	☐
Electricity costs	☐	☐	☐	☐
Major city central business district office rentals	☐	☐	☐	☐
Industrial land costs	☐	☐	☐	☐
International telephone calls	☐	☐	☐	☐

Note for interviewer

If respondent asks, the basis for comparing international telephone calls is: 'aggregated cost of five international direct dial calls of 10 minutes, with one call to each of London, Tokyo, Los Angeles, Singapore and Sydney from your location'.

Note for interviewer

If the interviewee is located in Singapore, Go to Question **12** after completing Question 10.

11 **I would like to go through those costs again. But this time, I would like your view on how Australia's costs compare with *Singapore*. For [**insert cost category from list**], do you believe *Australia's* costs are *higher*, approximately the *same*, or *lower* than Singapore.**

Note for interviewer

Read through the list, marking the ranking of Australia relative to country of interviewee.

Cost Category	Higher	Same	Lower	Do not know
Labour costs	☐	☐	☐	☐
Electricity costs	☐	☐	☐	☐
Major city Central Business istrict office rentals	☐	☐	☐	☐
Industrial land costs	☐	☐	☐	☐
International telephone calls	☐	☐	☐	☐

12 **I would like your impressions of the level of strike activity in Australia over the last five years. Do you think it has stayed about the same, has increased by more than 10 per cent or fallen by more than 10 per cent.**

About the same ☐

Increased ☐

Fallen ☐

13 **I will read you three countries: could you tell me which of them you think is *geographically closest* to South East Asia.**

South Africa	☐
Australia	☐
New Zealand	☐

14 I am also interested in your impressions of the comparative size of the Australian economy. Would you say the Gross Domestic Product of Australia is more than 10 per cent higher, approximately the same, or more than 10 per cent lower than the countries I will now read out to you.

	Higher	Same	Lower	Do not know
Singapore	☐	☐	☐	☐
Canada	☐	☐	☐	☐
United Kingdom	☐	☐	☐	☐
Hong Kong	☐	☐	☐	☐
Malaysia	☐	☐	☐	☐
South Korea	☐	☐	☐	☐

15 **I would like your view onAustralia's *rate of inflation*. To the nearest whole number, what do you think was Australia's average rate of inflation over the last three years?**

☐	? per cent
☐	Do not know

16 **And the last question I have— do you consider the Government of Australia welcomes direct investment in Australia from overseas businesses?**

Yes	☐
No	☐
Do not know	☐

Note for interviewer
Please indicate the person we should contact if any queries arise regarding this form.

Name:
Position:

Telephone Number
Facsimile Number

Abbreviations

ABS	Australian Bureau of Statistics
ACT	Australian Capital Territory
AIB	Australian Investment Brief
AIDC	Australian Industry Development Corporation
AMEX	American Express
APEC	Asia Pacific Economic Cooperation forum
ASIC	Australian standard industry classification
BIE	Bureau of Industry Economics
DIST	Department of Industry, Science and Technology
DITAC	Department of Industry, Technology and Commerce
EDA	Economic Development Authority
FDI	Foreign direct investment
GDP	Gross domestic product
GNP	Gross national product
IC	Industry Commission
IMF	International Monetary Fund
IPFP	Investment Promotion and Facilitation Program
IPP	Investment Promotion Program
JLW	Jones Lang Wootton
MEB	Marginal excess burden
MNE	Multi-national enterprise
MPF	Major Project Facilitation
NAFTA	North American Free Trade Association
NBITI	National Board of Industry, Trade and Investment
NIC	National Investment Council
OECD	Organisation for Economic Cooperation and Development
OLI	Ownership, location and internalisation

R&D	Research and development
RHQ	Regional headquarters
TRYM	Treasury macroeconomic model
UNCTAD	United Nations Conference on Trade and Development
UNCTC	United Nations Centre on Transnational Corporations
Note:	The US convention for a billion — one thousand million (10^9) — is used by the BIE

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