



Australian Government
**Department of Industry,
Innovation and Science**



Australian Government
Geoscience Australia

Submission to the Joint Select Committee on Trade & Investment Growth

Inquiry into Austrade's role in attracting investment in
Australia

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Introduction

Globally competitive industries and businesses are important contributors to Australia's economic growth and productivity. The changes brought about by global integration and technological advancement are rapid and far-reaching. Australian businesses need to position themselves to take advantage of emerging opportunities and succeed in the evolving economic environment. This will require Australian businesses to adopt new processes and technologies to increase productivity and help ensure continued competitiveness. Business investment is critical to these outcomes. Foreign investment, in particular, provides an important source of capital, creates ties to international markets and supports higher investment in Australia, strengthening the resilience of Australian firms and the Australian economy.

The primary focus of foreign investors is on the overall attractiveness of a country's investment climate and the investment opportunities available. The attractiveness of a country's investment climate is shaped by factors such as regulatory and policy certainty, and the availability of finance and skilled workers. Investment promotion agencies such as Austrade play an active role in attracting foreign investment to Australia.

The Department of Industry, Innovation and Science (DIIS) works with Austrade to provide integrated assistance for Australian businesses as they pursue a growth strategy in both domestic and international markets. Geoscience Australia works with Austrade to provide knowledge specifically on mineral and petroleum resources to potential investors. This submission provides an overarching Industry, Innovation and Science perspective, with particular reference to minerals and energy from Geoscience Australia and unique nuclear capabilities at the Australian Nuclear Science and Technology Organisation (ANSTO). This submission identifies ways in which Austrade can partner with DIIS to expand its reach, boost its capability to engage with investors, and put its knowledge of investor interest in the context of the domestic economic agenda.

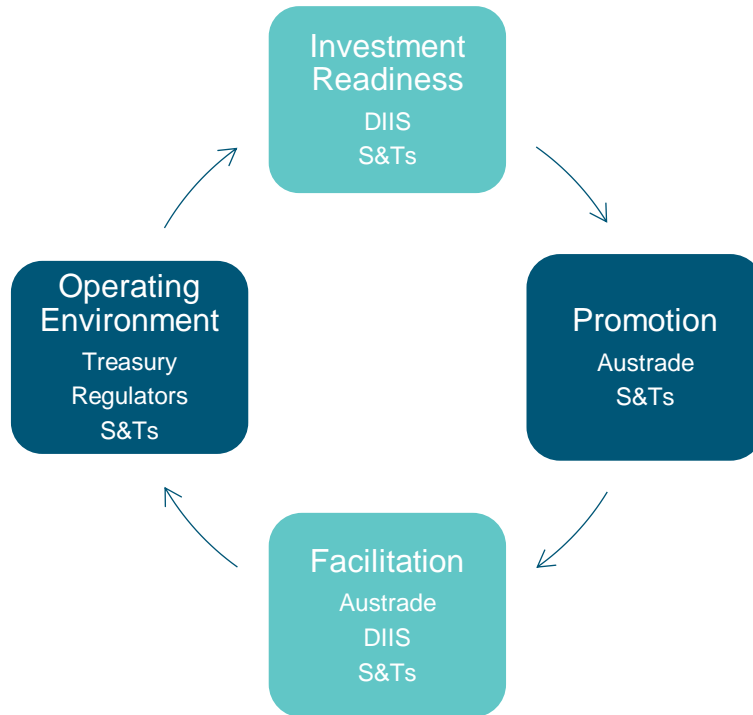
What role does Austrade have in attracting investment to Australian businesses?

A multifaceted approach is required to attract, facilitate and retain foreign investment in Australia, consisting of:

- Creation and maintenance of an attractive business operating environment including regulatory certainty and efficiency, a taxation system that incentivises investment, platform infrastructure, and a skilled and flexible workforce;
- Promotion of Australian investment opportunities to overseas investors;

- Strengthening investment readiness of Australian businesses by building business capability, industrial competitiveness, and supporting innovation and research and development (R&D); and
- Facilitation of investment in key activities, such as major projects.

Figure 1 – Conceptual framework for government investment activities



As depicted in Figure 1 – above – Austrade is the Commonwealth's lead agency on investment promotion and facilitation. Its role is to deliver coordinated government assistance to promote, attract and facilitate productive investment into Australia. Austrade is a national point-of-contact for investment enquiries, and works in partnership with state and territory governments to provide investors with the information needed to establish or expand a business in Australia. A broad range of Commonwealth and State and Territory agencies also have an interest in investment promotion. Austrade's strong overseas business networks and links to state and territory investment agencies mean, in most cases, it is the Commonwealth agency best placed to prosecute investment promotion and attraction. However, as highlighted above, business readiness and an attractive investment climate must precede investment attraction to ensure these efforts are as fruitful as possible.

What have the benefits been from investment in Australian businesses?

Investment in Australian businesses provides the foundation for increased capital stock, greater productivity and higher real wages, as well as providing crucial jobs and increased

tax revenues. These are key drivers of Australia's high comparative standard of living and the level of business investment remains a crucial determinant of our future living standards.

As a geographically-large, resource-rich country with high demand for capital, Australia uses foreign investment to support the development of our economy. Foreign investment enables Australia to attain higher levels of investment than could be achieved with domestic savings alone. It also supports growth by allowing us to fill excess investment demand. The domestic savings gap has averaged four per cent of GDP over the last five years.¹ In 2017-18, around 88 per cent (\$390 billion) of Australia's capital needs were sourced from domestic savings while the remaining 12 per cent (\$55 billion) came from overseas.² Foreign-owned businesses in Australia had assets valued at \$1.9 trillion in 2014-15, employed 966,200 persons and paid wages valued at \$67.3 billion (on average over \$20,000 per year per employee more than wages paid by Australian-owned businesses).³ They made operating profits of \$49.5 billion and contributed 11.3 per cent of total business tax revenue.⁴ Excluding the financial and insurance services sector, these businesses contributed \$221.9 billion in industry value added to the Australian business economy, representing 20.8 per cent of total Australian business output.⁵

Of particular relevance when considering investment in the context of Austrade, foreign investment can also generate dynamic benefits for Australia's economy. Investment, and foreign sourced investment in particular, can facilitate the diffusion of new technology and expertise, and strengthen the productivity performance of Australian businesses. A positive and significant relationship between foreign direct investment (FDI) and host-country total factor productivity in both absolute levels and growth rates, has been established in numerous macro-level studies.⁶ This positive relationship is often attributed to productivity spillovers that foreign entrants generate and which domestic firms can potentially absorb. These spillovers can arise from direct knowledge transfer through partnerships, opportunities to observe and learn about the technologies of foreign firms, sharing intermediate input suppliers, and interaction and movement in the labour market.

FDI also increases competition, which has a positive impact, not only on consumers, but also on the economy as a whole, driving down prices, increasing quality, and improving overall economic efficiency. Competition drives innovation. Without competition, there would be little pressure on firms to introduce new products or processes. This can result in an

¹ The benefits of foreign investment. Retrieved from <https://dfat.gov.au/trade/investment/Pages/the-benefits-of-foreign-investment.aspx>

² How foreign investment benefits Australia (p. 6). September 2018. Department of Foreign Affairs and Trade <https://dfat.gov.au/trade/resources/Documents/benefits-of-trade-and-investment.pdf>

³ Economic activity of foreign-owned businesses in Australia 2014-15 (p. 2). August 2018. Department of Foreign Affairs and Trade <https://dfat.gov.au/trade/resources/investment-statistics/Documents/economic-activity-of-foreign-owned-businesses-in-australia-2014-15.pdf>

⁴ Ibid, p. 1

⁵ Ibid.

⁶ See, for example, Alfaro et al., 2004; Arnold and Javorcik, 2009; Borensztein et al., 1998; Guadalupe et al., 2012; Harrison and Rodriguez-Clare, 2011; and Kose et al., 2011.

economy lagging behind others as a centre of innovation, best practice and losing international competitiveness.

Austrade's investment attraction activities, and therefore potential spillover benefits, are currently directed to five sectors: agribusiness and food; major infrastructure; tourism infrastructure; resources and energy; and advanced manufacturing, services and technology. In these sectors, Austrade focuses on FDI that will contribute to economic prosperity through creating and retaining Australian jobs; developing new industries and infrastructure; introducing new technologies and skills; encouraging innovation and competition; raising productivity; and strengthening Australia's overall economic linkages with the world.

How might Austrade better help Australian businesses to attract investment?

Investment attraction as a whole of government activity

As highlighted above, Austrade's activities intersect with the work of other Commonwealth agencies, State and Territory governments and industry and business groups. This presents the opportunity for Austrade to enhance facilitation of a whole of Commonwealth government approach to investment attraction. This involves:

- Sharing its insights on foreign investors' views on the Australian investment environment with domestic economic agencies including, but not limited to, the Treasury and DIIS;
- Drawing more heavily on the expertise of domestic economic agencies such as DIIS to ensure that Austrade's investment promotion activities accurately reflect Australia's strengths;
- Engaging further with science and research agencies such as ANSTO to identify areas of potential collaboration or partnership with government that could draw in industry, research institutes and potentially universities;
- Where relevant, consider collaboration with the NAIF to support investment in infrastructure for northern Australia; and
- Connecting its activities to, and sharing its market intelligence with, those of other government agencies.

Connections with other government agencies in these ways can assist Austrade in delivering a more comprehensive service for its clients.

Drawing on the expertise of others

As mentioned above, there are opportunities for Austrade to leverage the expertise of domestic agencies such as DIIS, Geoscience Australia and ANSTO to further its investment promotion and attraction activities. For example, Austrade has worked with Geoscience Australia, using their expertise in mineral resources, to inform the development of relevant promotional materials. This approach could be applied more broadly for even greater affect.

Key capabilities in DIIS, Geoscience Australia and ANSTO that could support a coordinated approach to investment promotion and attraction include:

- DIIS' Office of the Chief Economist: provides objective, robust and high quality analysis to inform policy development across industry, innovation, the resources sector, evaluation and data;
- DIIS' Major Projects Facilitation Agency (MPFA): provides a single entry point for domestic and international project proponents seeking tailored information, facilitation and coordination of their Commonwealth regulatory approval requirements and processes;
- Geoscience Australia, States and Territories and DIIS, collaborating as 'Australia Minerals' and 'AUSTRALIA Petroleum' under the Geoscience Working Group endorsed by the CoAG Energy Council: promotes current and emerging investment opportunities in Australia's resources sector including through the provision of information and data on Australia's mineral, oil and gas resources and potential investment opportunities to domestic and international companies;
- DIIS' Industry Growth Centres: promote building business capability and collaborative networks to drive innovation, productivity and competitiveness; and
- DIIS and Geoscience Australia's expertise: Austrade could leverage DIIS' position as the lead agency driving business capability and competitiveness, and Geoscience Australia's as the nation's trusted advisor on Australia's geology and geography, for example, to access detailed data sources and knowledge on Australia's comparative advantages in the resources sector.
- ANSTO expertise and capability: Austrade could draw on ANSTO expertise in silicon irradiation, minerals and metallurgical consultancy and radiation services and promote to potential investors. ANSTO's business units in these areas cater to both domestic and international customers, with established skills in attracting investment.

In its response to its Organisational Capability Assessment (2017), Austrade committed generally to partner with other government agencies to design and deliver investment services and promote Australia and its capability abroad. Austrade also committed particularly to work with DIIS to provide integrated assistance for Australian businesses, as they pursue growth strategies in international markets. We look forward to working with Austrade to take this commitment forward.

Enhanced information sharing

Austrade's overseas networks can provide a useful information source to improve the government's understanding of the investors' perceptions of the Australian investment climate. Operating at the confluence of government and business, Austrade's Trade Commissioners — based in 49 markets — regularly liaise with, and receive feedback on Australia's investment attractiveness from current and future investors. This feedback is vital for Australia to maintain and fortify its competitiveness as an investment destination, particularly at a time of increasing competition for international funds. We would welcome further opportunities to increase communication between Austrade's Commonwealth partner agencies to share such information.

As Austrade's Organisational Capability Assessment notes, sharing and leveraging information and resources, and collaborating on initiatives, will reduce duplication, rationalise resource use and maximise national project opportunities and outcomes for clients. DIIS welcomes Austrade's commitment to work with us; we are similarly committed to strengthening the relationship between industrial and investment policy. For example, we see the enhancement of domestic firms' capability as going hand-in-hand with international attraction efforts to boost business investment and growth, particularly noting the spillover benefits associated with FDI, and importance of business readiness initiatives such as Austrade's landing pads.

Working with DIIS to progress shared policy goals

Conceptually, investment policies are a key instrument of industrial policies. As such DIIS and Austrade have many shared policy goals such as building Australian firms' export capability and integration in global value chains and harnessing the benefits of productive FDI to enable domestic business growth. These shared goals highlight the importance of integrated industrial and investment policies.

As an example, DIIS' Resources 2030 Taskforce Report notes that extending our global resources leadership will require collaborative approaches to investment promotion, supported by more accurate and comprehensive information to highlight projects and opportunities to appropriate audiences. It is important to get this right. The minerals and petroleum resources sectors are Australia's largest export earners, and maintaining a pipeline of investment from exploration to development is an essential role of Governments throughout Australia, especially given fierce international competition for this capital. As such, it will continue to be important for Austrade to harness the capability of *Australia Minerals* and Australia Petroleum to most effectively reach new investors. A similar approach could be applied across other Australian industries to assist with Austrade's investment attraction efforts.