

**Australian Manufacturing Workers Union**  
*Enterprising Australia - planning, preparing and profiting from trade and investment*  
Joint Standing Committee of Foreign Affairs and trade

# AUSTRALIAN MANUFACTURING WORKERS UNION

**ENTERPRISING AUSTRALIA - PLANNING, PREPARING  
AND PROFITING FROM TRADE AND INVESTMENT**

JOINT STANDING COMMITTEE ON  
FOREIGN AFFAIRS AND TRADE  
TRADE SUB-COMMITTEE

FEBRUARY 2001

## ***Disclaimer***

In Australia, the national agency responsible for export facilitation and investment promotion is the Australian Trade Commission. AMWU Research Officer, Nixon Apple, served on the Austrade Board of Directors since its inception in 1986 up until his retirement from the Board in January 2001. Mr. Apple is currently writing a major Report on Australia's efforts to promote exports and investment. Upon completion it will be circulated within Austrade before being made public. The Report, some 200 pages, includes a Chapter (Part 3) dealing with investment promotion. Mr. Apple has agreed to have a draft of that Chapter of his Report included as Appendix Two to this AMWU submission. While still a draft and yet to be completed it represents the "insiders view" of what works and what doesn't work and why. Mr. Apple has had no other involvement in this AMWU submission as he believes his full Report should be circulated within Austrade prior to its public release. He is however prepared to come with the AMWU to appear before this Parliamentary Committee and discuss the issue of investment promotion since most of his views on this matter are already on the public record.

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### ***Terms of Reference***

The Australian Manufacturing Workers Union submits to all of the terms of reference of this inquiry.

- The role of development agencies in economic expansion such as the Industrial Development Agency in Ireland and the Economic Development Board in Singapore;
- Reasons for the success of other wise of development agencies in establishing countries and regional areas as economic leaders;
- The comparative role of such development agencies to existing agencies in Australia;
- Incentives and impediments to foreign investment in Australia such as transport systems, taxation, telecommunications infrastructure, production costs, industrial relations structures, legal systems, federal systems of government and research development initiatives;
- The adequacy of a skilled workforce in Australia particularly in new growth areas such as, though not limited to, financial services, information technology, E-business, education, pharmaceuticals and health care, and the competitiveness of that workforce; and
- Opportunities for encouraging inward investment and promoting export sales.

### ***Recommendations***

1. Invest 5% of GDP into the education system (compared to 4.3% today). This must be sustained at or above the OECD average;
2. Implement policies aimed at lifting business investment in R&D;
3. Lift government support to the SET sector as advocated by the Chief Scientist;
4. Encourage the mobilisation of venture capital (from institutions, individuals, companies and Government) to support start up and early stage businesses with the commercialisation of new technologies;
5. Prioritise sector action plans for Australia's science and engineering based industries including a refocusing of investment promotion activities to ensure additional greenfield site capacity is established in these industries;
6. Ensure development of worlds best pro-active innovation system, such take up rates and capabilities of the on-line economy, commercially driven networks and clusters of firms including those in business incubators/technology parks, as well as strong linkages between public and private sector agencies (two way flows of scientist, engineers, resources etc.) that drive the innovations system;
7. Foster a socio-political culture that "manufacturing matters", and to "make it here or jobs disappear". Ensure Australia establishes an international reputation as a location within which to manufacture for both domestic and global markets;
8. Encourage linkages between government agencies that ensure investment in innovation and the development of industry;

## ***Introduction***

Trade is integral to any nation and economy. However, the type of trade that a country participates in needs to be considered when developing industry policy. Overwhelmingly the theory of comparative advantage underlies decisions related to industry policy. This theory stipulates that trade is based on a country's most abundant factor where factors are given as natural endowments. The theory then predicts increased specialisation of production across countries.

However, the real world of trade would be better described by competitive advantage which shifts over time. Factors such as capital and skilled labour are created in the course of economic growth not given as natural endowments.

Australia has historically adhered to the theory of comparative advantage and relied on being the "lucky country" with our mineral and agricultural resources. Governments have rarely focused on the development of manufacturing industry to promote employment and hence economic growth.

The AMWU submits that the development of a viable import competing and exporting manufacturing industry is the best means of sustained economic growth that benefits working people and their families. All developed nations have used strong industry policy to deliver real gains in industry development and economic growth.

This inquiry is particularly pertinent to current debates occurring in Australia and around the world about the nature of trade and investment. Strong development agencies and boards as seen in particularly Ireland and Singapore have allowed the benefits of global investment be distributed more fairly.

It is a worrying trend in Australia that the benefits of the so-called global economy are being directed to the fashionable areas of IT, biotechnology and services with complete disregard to other industries in Australia. These policies will only serve to increase an already unacceptable inequality level. Much has been made about the necessity of education, research and development and innovation to develop industry while funding in these areas has been dropping to well below the OECD average.

The AMWU believes that the unacceptable level of investment in the educational requirements of Australians and the trend to transfer responsibility for education from the public to the private sphere will only serve to increase inequality. Inequality reduces competitiveness, which in turn will reduce the viability of Australia as an investment market.

Section one shows how Ireland has managed to be labeled the "Celtic Tiger" of Europe and how the government is harnessing development and investment for the long term growth of the economy. Whereas Australia has generally taken a backseat in targeting the role of foreign direct investment (FDI) and the necessity of R&D for industry development. The Howard Governments recent Innovation Statement further isolates Australia as a backward looking and investment backwater.

Section two looks at Australia's manufacturing industry and its role in securing export markets but also the necessity of R&D and innovation to maintain and expand manufacturing industry. Research conducted by the AMWU shows extensive community support in the development of a viable manufacturing industry. Other research conducted by the AMWU also shows that the manufacturing industry has greater linkages with other sectors therefore fueling economic growth and job creation.

The third section will look at Australia's role in the global economy. Particularly the perception of Australia as an "old economy". The level of the Australian dollar makes Australian businesses a prime target by foreign takeover which does not augur well for the development of sustainable industry policy. Also, the prevailing belief in market and trade liberalisation brings concern of how successive Australian governments will be able to implement nation building policies in the future to ameliorate market failure.

## ***1. Industry Development Agencies and Boards***

It is the AMWUs position that the development of industry is vital to the long term prosperity of Australia and the maintenance of living standards.

The simple rule in Western Europe and East Asia's economic development has been a self fulfilling cycle:

- the greater the level of assistance for strategic industries, the greater the rate of growth strategic industries;
- the greater the rate of growth of the strategic industries, the greater the rate of growth of the general economy and different sectors in it; and
- the greater the rate of growth of the strategic industries and the economy, the greater will be the rate of productivity growth in the strategic industries and the economy.<sup>1</sup>

Ireland has benefited greatly from the closer economic ties of the European Economic Community (EEC). In 1993 the then President of the EU Jacques Delors released a White Paper, *Growth, Employment and Competitiveness* which outlined its use of the Structural Funds and Framework programs to build regional capacity in areas such as industry cluster information, research and education, enterprise adaptability, lifelong learning, infrastructure and cultural development.<sup>2</sup>

Today, the Republic of Ireland has one of the highest concentrations of ICT activity and employment in the OECD. This activity comprises both electronics hardware manufacturing, such as personal computers (PCs), and software products and services, especially business application products and 'localisation'. While it has largely been driven by foreign direct investment (FDI), recent evidence suggests that an indigenous software industry has also become well established through supply chain operations and new business start-ups and is now growing at a much faster rate than the multinational sector. It is also a major factor in the prodigious rate of high skill, high wage job creation since the early 1990s and comprises a key element of Ireland's 'regional innovation system'.<sup>3</sup>

Recognition in Ireland of the growth in IT manufacturing has not signified an end of manufacturing or even the advent of a 'post-industrial society', but an extension and change of existing work organisation and production methods. The linkages created by high technology have seen an increase in indigenous start-ups in Ireland and hence the creation of industry clusters.

Ireland's human resource base must also be taken into account of its attraction of FDI, particularly in the ICT sector. The ILO has stated that the "ability of a country to attract, successfully absorb and benefit from foreign direct investment, and the transfer of technology which it may bring, depends to a large extent on its own technological capabilities, of which the skills and technical knowledge of its workforce

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<sup>1</sup>NIEIR (2000) *Industry Assistance Reductions and the Australian Economy: Contemporary Issues and Future Prospects*, NIEIR, Clifton Hill (p 10)

<sup>2</sup>Green, Roy, "*Regional Innovation: The European Experience*", Paper presented to the Regional Cooperation and Development Forum, Canberra, 3/12/2000 (p 2)

<sup>3</sup>ibid

are critical components".<sup>4</sup> With its cuts to public expenditure on education and research, the Australian Federal Government seems to have lost sight of this obvious and well established fact.

A negative aspect of Irelands growth has been an over-reliance on FDI and importing of foreign technologies. Similarly to Australia, Irelands negative 'technology balance of payments' is due to Irelands traditionally low R&D intensity, particularly low levels of business expenditure on R&D as a proportion of GDP at 1.5 per cent. However, Irish policy making has recognised this shortfall and is enacting steps to entrench Irelands cluster formation around a self-contained group of *producers* of ICT rather than *consumers*.

On the other hand, the Australian Bureau of Statistics estimates that at the rate we are going in buying technology off the shelf overseas, our Budget deficit in information technology and telecommunications alone will be \$28.8 billion in 2010-11<sup>5</sup>. Further estimates suggest that our trade deficit in information and telecommunicatoinns technology will only exacerbate the already infalted deficit in ETMs of \$56 billion (1999). What this says is that we need to be a whole lot more than a smart buyer of technology. We have to invest in our ideas and export our innovative products.

The OECD average of ICT expenditure as a proportion of GDP is an average of 7 per cent. Irish expenditure is low at 6 per cent. Although Australia is at the other end of the spectrum with an ICT intensity of 10 per cent it ranks very poorly as a producer accounting for only 1 per cent of GDP.<sup>6</sup> The recent claim by federal Industry Minister, Senator Minchin that Australia can be counted as a 'knowledge-based economy' due to its high internet take up - that is, as a *consumer* of ICT does not reflect the industry outcomes of a 'knowledge-based economy.'

The Government of Ireland released in 1999 its *National Development Plan 2000-2006* in recognition of the strong link between investment in the research and innovation base of an economy and sustained economic growth. The report said that the "accumulation of knowledge capital ... will then facilitate the evolution of the "knowledge based" economy."<sup>7</sup> Knowledge capital being the investment in the education, research and development of a country's human resource base but also its businesses.

The 1997 report released by the Metal Trades Industry Association and the Economist Intelligence Unit, *Make or Break: 7 steps to make Australia rich again* found that "too many companies are finding that their options for investing in globally competitive manufacturing in Australia are being closed off, as much by inappropriate government policy settings as by the challenges of globalisation of industry."<sup>8</sup> The report also found that the countries with the strongest and most vibrant industry sectors appear to be those that have fostered strong linkages between their increasingly high-tech manufacturing sectors and the services sides of their economies. AMWU research in this area reiterates this in the next section.

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<sup>4</sup>ILO 1999, cited in op cit (p 5)

<sup>5</sup>Serjeantson, Sue (8/12/2000) *Defence Spending: let's not forget our scientists*, SMH

<sup>6</sup>Green, Roy, "Regional Innovation: The European Experience", Paper presented to the Regional Cooperation and Development Forum, Canberra, 3/12/2000 (p 7)

<sup>7</sup>Government of Ireland, (1999) *National Development Plan 2000-2006*, (paragraph 6.35)

<sup>8</sup>MTIA/EIU (1997) *Make or Break: 7 steps to make Australia rich again*, MTIA (p 14)



Governments around the world have recognised that development of knowledge based industries and manufacturing leads to greater productive capacity which then flows to higher living standards. Successful economies have pursued a high growth strategy by investing in people knowledge in the form of increasing education standards through all levels of schooling and the pursuit of ongoing training as Ireland is doing upon the release of their *National Development Plan 2000-2006*.

### *Howard Government's Innovation Package*

The Howard Government's innovation package released in January of this year means that Australian business will invest \$45 billion less in R&D this decade. The statement ignores the manufacturing industry which has been contributing more than 50 per cent of business investment in R&D over the past decade.

Australia needs a long-term national development strategy focused on nation building. A strategy that is based on diversifying Australia's industrial base. Instead the Howard government tried to plug the hole of what was taken out in their slash and burn budget of 1996.

While welcoming the additional funding (\$2.9 billion over 5 years) particularly for basic research and the science-research infrastructure required to support it the AMWU condemns the government for its failure to provide additional incentives for business investment in R&D and commercialising technology. In the 10 years to 2005-2006 support for business R&D through the tax concession will have been cut by around \$4 billion. In his innovation package the Prime Minister put a miserly \$128 million back in. It would be laughable if it wasn't so serious. As a result of this failure to increase incentives for business R&D Appendix one demonstrates:

- Business investment in R&D in the 6 years to 2001-2002 will increase by just over \$25 billion. Had we kept the 150% R&D tax concession that existed in 1995-96 instead of slashing it, Australian business would have invested \$34 billion in R&D.
- During the decade to 2010 Australian business will invest \$45 billion less in R&D than if the proper incentives and strategic framework were in place. And it could be a lot less if business R&D doesn't grow by 12% per annum for the rest of the decade.
- As a result, instead of investing in R&D at the same comparable level as other OECD countries by 2010, Australian business will only invest at 58% of the OECD average level of business R&D expenditure and this could fall to 50% or less if business R&D doesn't grow by 12% per annum for the rest of the decade.

Further to this, and based on the econometric modelling undertaken in the early 1990's the consequences of this stagnation in business R&D is likely to reduce the long term growth potential of the Australian economy by around 0.5% of GDP.

In addition, the Government's package is strong on research but weak on development and a strategy to turn Australian ideas into jobs and wealth in this country rather than overseas. Its notion of research is much too narrow and ignores the realities of multi-disciplinary teams (research scientists, engineers, technicians as well as trades and other shop floor workers), the key role of TAFE and the need for a competency based training system. As the attached Appendix one suggests the Government's innovation statement is also fundamentally flawed because:

- There is no new emphasis given to the Investment Promotion Program to attract \$3-\$4 billion of additional investment each year in science-engineering and knowledge intensive production capacity (rather than the \$1 billion per annum the program currently facilitates) to boost R&D and help commercialise Australian ideas. In fact this is the first R&D initiative in a decade that totally divorces innovation from trade and investment.

- There is no strategic plan to get Telstra doing something positive to triple its R&D and to develop partnerships for new product development with Australian firms. Again the linkages between innovation, trade and investment are missing.
- There were no new initiatives to promote support for venture capital, particularly for start-up and rapidly expanding manufacturing firms.
- Almost 60% of the funding for the Government innovation package isn't available till 2004-2005 and 2005-2006. This means little is available upfront to correct the disaster of the last 5 years, and it leaves the integrity of the package wide open to abuse through future spending cuts.

The Government should have:

- ⇒ Increased the 125% rate for the R&D tax concession for all firms to 130% and made the 175% rate for additional R&D applicable to both labour and capital costs.
- ⇒ Given the importance of the future of manufacturing (which while accounting for 13% of GDP provides 40% to 50% of the business investment in R&D) a major inquiry should have been established like the 1990 study for the Australian Manufacturing Council "The Global Challenge". This should provide the basis for a 10 year strategic plan for rebuilding manufacturing.

For 5 years now the AMWU has been telling Government how much damage has been done to the nation's investment in education and innovation as the result of the Howard Government's budget cuts and lack of strategic direction since 1996-97. There is no doubt that the strong leadership of Kim Beazley and his commitment to a knowledge nation as well as the criticism and lobbying efforts of unions, business and the science-research community finally persuaded the Government to announce an innovation statement with the issues looming large in the coming Federal election. But the strategy and the likely outcomes are totally inadequate, particularly in helping to rebuild manufacturing industry.

Unless these and other initiatives are taken Australia will continue to underinvest in education and innovation leaving the nation with a \$130 billion knowledge deficit accumulated over the remainder of this decade as highlighted in the attached Appendix one. And manufacturing industry in Australia will continue to be downsized.

## **2. *Australia's Manufacturing Industry***

The AMWU believes in the need for a strong manufacturing base in Australia. We need to develop industry that value-adds our abundance of natural resources. For too long we have relied on commodity exports and now look back in surprise at why international markets view Australia as an 'old economy'.

The AMWU is not alone in believing in the importance of manufacturing to long-term economic growth. In 2000 we conducted a poll of 1200 voters in 18 marginal seats across Australia undertaken by an independent consultancy group for the AMWU. We asked respondents how important the Australian manufacturing industry is, over 80 per cent said Very Important, and over 17 per cent said Important. Further findings were;

- 55.5% agreed or strongly agreed that reducing import tariffs means Australian business will become less profitable and employ less people.
- 56.7% people disagreed or strongly disagreed with the statement that tariffs just subsidise inefficient businesses and their employees.
- 91.1% agreed or strongly agreed with the statement that the Australian government should implement policies that protect the Australian manufacturing industry from unfair competition.
- 90.2% believe that the Australian government should do more to protect Australian jobs from competition from countries where employees earn very low wages.
- 98% believe that the Australian government should do more to support innovation and growth in the Australian manufacturing industry.

In relation to free trade and government policies on job security, we found that;

- 53.5% of respondents believed jobs would become less secure in the next few years.
- 65% believed that jobs had become less secure in recent years.
- Overall, the Federal government was nominated as being responsible for the reduction in job security.
- More than 75% believed that Australia does its fair share in relation to free trade, or that Australia does more than its fair share.
- More than 82% believed that tariffs should be left as they are, or that Australia should increase import tariffs.

With these figures in mind we realised that not only are we not alone in pursuing a better deal for the workers that I represent in the manufacturing industry, but when we pursue a better, more strategic industry policy for the manufacturing sector we have the support of the vast majority of Australians.

### *The importance of manufacturing*

All developed nations (e.g. OECD members) continue to have a large manufacturing base, and the rapid acquisition of manufacturing industry remains the chosen path to high per-capita income among developing countries such as China and Korea in the Asia-Pacific. Within OECD nations manufacturing is a key generator of full-time well paid jobs, technical innovation, new products and export income. Australia has allowed, and indeed encouraged, its manufacturing base to decline to the point that its share of output is one of the very lowest among developed nations.

Manufacturing represents 14 per cent of Australian GDP, compared to around 20 per cent of output for all other OECD nations. For technologically advanced countries such as Japan and Germany it represents around 25 per cent of output.

Australia has a manufacturing sector between five and seven per cent smaller than comparative OECD countries and is one of only three OECD countries where manufacturing growth during the 1990s was less than half that of economy-wide growth.

59 per cent of Australia's export base is primary and commodity products, however we then buy them back in the form of manufactured goods. Even if part of the manufacturing or processing is completed in Australia, this cycle of buying back our own commodities further exacerbates the current account deficit. Australia has one of the highest current account deficits in the world - constantly in excess of 5% of GDP whenever the economy grows by more than 3.5%.

The key to Australia's manufacturing sector is to invest more in the manufacturing of our primary products and to increase the proportion of ETMs we export to the world. But to increase our ETM exports we need to invest in research and development and in education and training to create a highly skilled workforce.

The capacity of Australian manufacturing to invest and improve its productivity is critical to Australia's capacity to improve real wages. The capacity of a nation or an economy to increase its productivity is a measure of how it can increase profits on production, which in turn is the measure of a nation's ability to share those rising profits in the form of higher wages for its workers.

### *The kind of manufacturing sector we need*

AMWU research has found that manufacturing has better linkages with other industries, therefore fueling employment growth. Many service-based firms are dependent on demand from manufacturing. For example, 33 per cent of demand for services from the Transport and Storage industry is from manufacturing. Manufacturing is also a major user of services from private scientific establishments, engineering and computer consultancy firms therefore increasing demand on R&D. These service firms are also key generators and diffusers of new technology, or what is commonly referred to as the 'new' over the 'old' industries. The AMWU believes that it is in fact the use of such 'new' technologies by the manufacturing industry that is ensuring the growth of the technology sector.<sup>9</sup>

In the STM sector much of the output is not directly consumed by consumers, but are capital goods and intermediate inputs which enter into the production process of other industries. These capital goods and intermediate products embody a continual improvement in technologies which, in turn, improves the productivity and efficiency of user industries.

The manufacturing industry is both a key source of inputs for other industries and a key source of demand for output of other industries. These linkages are effectively the purchasing and supply chains with other industries. Our research has shown that it is in fact manufacturing that has the highest level of demand for inputs when compared to other industries.<sup>10</sup>

The significance of these closer linkages with other industries is that every dollar of manufacturing output generates more activity and jobs in the economy compared to a dollar increase in the output of

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<sup>9</sup>AMWU (1999) *Growth and Innovation in the NSW Manufacturing Sector*, Submission to the Public Accounts Committee on Industry Assistance Policy in NSW

<sup>10</sup>ibid (pp 10-12)

other industries, especially in agriculture and mining. The manufacturing industry has a total multiplier effect of 20 per cent and 25 per cent larger than that of agriculture and mining respectively.<sup>11</sup>

Australia imports more than 60 per cent of its manufactured goods. This begs the question of why aren't we making some of the products we import? The answer is that Australia has "ridden the sheep's back", and had the "lucky country" syndrome by relying on our oil, gas and mineral resources for too long.

We need to develop strategic industries, but this will be from a manufacturing base that has been run down by nearly three decades of tariff reductions. If we are to have long and sustained growth then developing these industries is imperative.

The kinds of strategic industries we need to develop are industries that require skill, innovation and knowledge, for example;

- Biotechnology - pharmaceutical - chemical industries;
- Transport equipment industries;
- Advanced material industries (i.e. involving advanced processing of raw materials);
- Electronic equipment and communication equipment;
- And other equipment industries.<sup>12</sup>

To develop these kinds of industries, industry assistance is necessary. Industry assistance is not just about tariffs. Instead, government can support the development of these industries through, for example;

- Capital grants;
- Purchasing policies;
- Research and development assistance and coordinated education and training. But this needs to be linked with industry effectively or all that Australia will be doing is paying for trained staff, who leave Australia to North America and Europe where there are better and more job opportunities.<sup>13</sup>

A strong manufacturing sector with strategic industries is the only way that Australia will enjoy sustained growth, increases in living standards and a reduction in unemployment. The continuing trend to a more casualised and insecure labour market does nothing for the long term prospects of the country.

Australia for too long has assumed that the raw statistics of trade, unemployment and inflation show that Australia is doing well in international terms. But we also have to look at what type of jobs people are doing and issues of inequality and wealth distribution. Industry development is not short term and has to be viewed with a long term strategy in mind.

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<sup>11</sup>ibid (p 11)

<sup>12</sup>NIEIR (2000) *Industry Assistance Reductions and the Australian Economy: Contemporary Issues and Future Prospects*, NIEIR, Clifton Hill (p 9-10)

<sup>13</sup>ibid (p 5)

### 3. *Australia in the Global Economy*

Strategies must be developed to stem increasing inequality, job insecurity and the continuing trend of Australian industry to be seen as a "branch office" in the global economy. This is a particularly pertinent issue when governments are seeking flows of FDI. The proposed takeover of Woodside Petroleum by Shell has led to increasing questioning of the state of the Australian economy. It was encouraging to see that the Prime Minister John Howard also recognises that if we don't develop and protect Australian industry we will increasingly be seen as a "branch-office economy"<sup>14</sup>. He then went further by saying, "... the reality [is] that economic sovereignty, economic independence and economic dignity [are] a very important part of political independence and political dignity."<sup>15</sup>

These comments by the Prime Minister would seem to point to a greater understanding of the negative effects of trade and MNCs on Australian industry. However, it is still to be seen if any policy or proposals would in fact reflect this rhetoric. The proposed sale of Woodside which precipitated these comments has highlighted the growing concern of working people that Australian companies are continuing to be seen as an easy purchase for international MNCs.

Further comments made by David Murray, Chief Executive Officer of the Commonwealth Bank again reiterated the growing concern of Australia's position in the world economy.<sup>16</sup> Skepticism of the decreasing value of the Australian dollar against the US dollar which leaves Australian companies vulnerable to overseas takeover. Making Australia a "branch economy". We already see this in the manufacturing industry but David Murray says growth in foreign ownership can be arrested, if there is strong intervention by Australian governments and Australian business. He says that "the number of businesses that become foreign-owned is likely to be smaller if we reward effort, reward entrepreneurial capability, reward people who take business risks"<sup>17</sup>.

This reward of entrepreneurialism must include increasing funding and accessibility of research and development and innovation to ensure the growth and feasibility of the Australian manufacturing industry. All advanced industrial economies today have built their strategic plans for nation building around innovation which is driven by research and development as well as new product, process, design and engineering capability. Yet the current Federal government has failed to recognise the importance of R&D in its recent innovation statement. If the Prime Minister is serious about Australia retaining its national and economic sovereignty and not becoming a "branch office economy" then a focus on industry development is imperative for the long term prosperity of Australia.<sup>18</sup>

A focus on agriculture and commodity's only further isolates Australia as an "old economy" and therefore diminishes our role as an industrialised nation. All levels of government must participate in the development of trading industries in Australia, and the AMWU supports that. However, we do not support the blind faith in the market and free trade that sees the benefits isolated to the few at expense of working people and their families.

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<sup>14</sup>Howard, John, (11/2/2001) *Sunday*, Channel Nine

<sup>15</sup>ibid

<sup>16</sup>*Lateline*, (14/2/2001), ABC

<sup>17</sup>Murray, David, (14/2/2001) *Lateline*, ABC

<sup>18</sup>see appendix one, *The Economic Consequences of the Coalition Government's Innovation Statement*

The percentage of Australia's imports that are manufactures is 85.6 per cent. Over 75 per cent of these manufactures is from the elaborately transformed manufacturing industry, which we need to develop. The percentage of our exports that are manufactured goods is 34 per cent.<sup>19</sup> That means a trade deficit of over 50 per cent or nearly \$60 billion.

Australia's three largest export partners are Japan (19.2%), North America (Canada and the US) (11.1%) and Korea (7.2%). Of all of our exports, 57% goes to nations who are members of the OECD. This means that our export trade is predominantly to similar or richer nations.<sup>20</sup>

Similarly, 68% of our imports come from other OECD countries. The countries we import most from are North America (22.4%), the European Union countries (22.8%) and Japan (13.4%).<sup>21</sup>

These statistics debunk some of the myths of globalisation. Our trade relationship is mostly with wealthy, developed nations. This means we can compete internationally, despite what industry employers say are high Australian wages and inflexible conditions. Our exports to OECD nations are competing not against low-wage developing nations but against the manufacturing industry in the importing nation: in other words, measured against developed nations our employment conditions and productivity are extremely competitive.

However, these trade statistics are not going to stay like that forever. Developing countries particularly in our region have been rapidly pursuing a stable manufacturing base. Many governments have been actively pursuing the investment dollar and have been strategically pursuing FDI in industries of the future. For Australia to stay competitive and retain the current level of living standards we must develop long-term strategies to arrest the decline in manufacturing and the "brain drain" of the sciences.

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<sup>19</sup>DFAT, (May 2000) *Australia: Economic and trade statistics*, Market Information and Analysis Unit

<sup>20</sup>ibid

<sup>21</sup>ibid



**APPENDIX ONE**

**THE ECONOMIC CONSEQUENCES**

**OF THE COALITION**

**GOVERNMENT'S**

**INNOVATION STATEMENT**

**APPENDIX**

## **Australian Business Investment in Research and Development**

In the 1996-97 Budget, the Howard Government cut the 150% tax deduction for research and development to 125% thus "saving" some \$450 million per annum in revenue from this change. This cut the effective R&D subsidy from 18% to 9%. And this was done despite the fact that Australian business was investing far less in R&D than the average OECD country.

The 150% R&D tax concession was introduced in 1985 when Australian business investment (as a % of GDP) was less than 40% of the OECD average. Under Labor, business investment in R&D increased strongly reaching around 65% of the OECD average by 1995-96. Then came the collapse under the Howard Government. Between 1996-97 and 2001-2002 the cuts to the R&D tax concession may have saved the Government more than \$2.5 billion. However as shown in table one, over these same six years (1996-97 to 2001-2002) we estimate that:

- If Australian Business R&D expenditure as a % of GDP had matched the OECD average then business R&D investment would have totalled \$49.1 billion.
- If Australian Business R&D expenditure as a % of GDP had increased at the same rates it had for the past decade and a half then business R&D investment would have totalled \$34.5 billion and by 2001-2002 we would be investing about 80% of the OECD average.
- However, because of the Howard Government's cuts to the R&D tax concession, business investment in R&D is likely to total just \$25.5 billion in the six years through 2001-2002. By that time, Australian business investment in R&D as a % of GDP will be back to about 50% of the OECD average. And we think these are conservative estimates; it could be worse.

**Table One: Australian Business Investment In R&D**

	<b>Business R&amp;D % of GDP 1996-97 to 2001-2002 (6 Year Average)</b>	<b>Total \$ R&amp;D Expenditure (Business) 6 Years to 2001-2002</b>
(1) What Australian Business should have invested in R&D (i.e. the OECD average)	1.35%	\$49.1 billion
(2) What Australian Business would have invested in R&D if the trend increases of the past decade had continued	0.95%	\$34.5 billion
(3) What Australian Business will invest in R&D as a result of the Howard Government's Policies	0.7%	\$25.5 billion

**Note:** GDP estimates for two years through 2001-2002 assumes nominal GDP growth of 6% (2000-2001) and 5% (2001-2002). GDP for previous years are national account actuals. R&D estimates for column 2 assumes 12% per annum nominal R&D growth over the period which is in line with the 10.5% per annum real increases recorded since the mid 1980's. R&D estimates for column 3 assume the business R&D share of GDP stays fixed at its 1998-99 level (0.67%) for the following 3 years. The OECD average of 1.35% of GDP is the 20 country average shown in the Science and Technology Budget Statement 2000-2001 (pg 4.13) with a modest increase, assumed over the period which is probably conservative. In both these estimates and those covering a full decade we have not adjusted GDP growth to take account of the different scenario's. This will be done in subsequent work and is likely to result in larger GDP growth for the strong R&D growth scenario and lower GDP growth for the stagnation scenario (as highlighted in (3) above). This will result in marginal changes in the R&D share of GDP shown in the table above and elsewhere in this paper.

Some examples of companies that have been cutting their R&D spending are highlighted below. In the recent R&D and Intellectual Property Scoreboard 2000 publication, data was provided for the top 50 R&D spenders amongst all Australian based companies. Three years of data was available for 47 of the 50. In 1996-97 these top 47 R&D performers spent \$1.3 billion on R&D. We would expect the top companies to grow their R&D by at least 10% per annum so this \$1.3 billion spent in 1996-97 should have jumped to \$1.6 billion by 1998-99. Instead it fell to \$1.2 billion, 25% below what should have occurred. Australia can't afford this collapse in R&D investment. The table below shows 19 of these companies who in total reduced their R&D spending by 33% in the 2 years to 1998-99.

<b>R&amp;D Expenditure:: \$Million</b>		
	<b>1996-97</b>	<b>1998-99</b>
Rio Tinto	106.4	84
Ford	106.3	72.7
Ericsson	109.5	65.2
Telstra	58.0	34.0
Amcor	57	30.7
Hewlett Packard	21.5	17.6
Comalco	40.9	17.2
Email	17.0	15.1
ERG	36	14.4
Alcoa	17.2	12.1
Southcorp	13.9	10.5
Varian Holdings	11.3	8.9
Britax Rainsford	8.3	7.7
Burns Philp	14.8	7.7
Pasminco	10.8	7.1
Evans Deakin	16.0	6.5
Pacifica	9.4	6.3
Wattyl	8.1	6.0
CSR	13.2	6.0

But the story does not end here. By 2001-2002, Australian Business will be investing \$4.6 billion in R&D. Had the 150% R&D tax concession remained in place with any rorts removed and the trend increases of the past (1984-1996) continued, they would have invested almost \$7.5 billion in R&D in 2001-2002. That means for the remainder of this decade the gap (in dollar terms) will grow larger even if the Howard Government innovation package leveraged up additional private business investment in R&D. For example, even if we assume Australian business investment in R&D for the remainder of the decade (2001-2002 to 2009-2010) grows at 12% per annum in nominal terms we find:

- 1 For the first decade of the new millennium under the Howard Government policy framework, Australian business would invest \$72 billion in R&D and by the end of the decade Australian business investment in R&D (as a % of GDP) would be just about 1% compared to the OECD average of around 1.7%.
- 2 Had the existing arrangements put in place by the Labor Government (150% R&D) remained in place, the rorts removed and the trend increases of the past continued (around 12% in normal terms),

Australian business would have invested \$117.4 billion in R&D with the business investment share of GDP matching the OECD average of around 1.7% by 2010.

So instead of \$72 billion being invested by business in R&D, we would have had \$117 billion, a gap of more than \$45 billion. The reality of course is that if the current policy settings for business R&D remain unchanged there is very little chance of achieving growth of 12% per annum so the gap will even be larger. This outcome is reinforced by the decision of the Government to make eligibility for the tax concession dependent on meeting a set of criteria (e.g. compassing both innovation and technical risk) that, depending on the drafting of the legislative criteria and subsequent ATO rulings, is more likely to diminish rather than enhance the incentive to invest in R&D.

Based on the work of Dr. Peter Sheehan and his colleagues (see P. Sheehan et al : Australia and the Knowledge Economy pp 206 - 207) who undertook econometric modelling of the consequences of strong growth in business R&D versus stagnation in the early 1990's, it is likely that the consequences of the Howard Government's R&D policies over the past 5 years will be to reduce the long term growth potential of the Australian economy by something in the order of 0.5% of GDP during the next decade.

Australia simply can't afford this kind of "knowledge deficit". It is imperative that the Government elected in 2001 makes fundamental changes to the policy framework for business investment in R&D including:

- Lifting the 125% tax concession to 130% for all firms so it is the same subsidy equivalent (9%) as it was when the tax concession was 125% with a 36% corporate tax rate.
- The additionality component (175%) must apply to both the cost of capital and labour.
- The Government's Investment Promotion Program must be changed so that instead of facilitating an additional \$1 billion of additional investment (as has been achieved on average each year during the second half of the 1990's), a target of \$3 to \$4 billion is set and met. This must be targeted at getting new productive capacity in science-engineering-knowledge intensive industries so that more R&D is undertaken and Australia has a greater capacity to commercialise the research done in Australia to create jobs and wealth here rather than overseas.
- Incentives for venture capital investment (through the Industry Innovation Investment Funds - IIF) must be doubled with funds specially targeted at new start up and rapidly expanding manufacturing firms.
- A partnership agreement between Telstra and Government must be established to massively increase Telstra's role in R&D, product development and venture capital provision for partnership agreements with Australian firms to expand Australia's science-engineering-knowledge based firms.

Finally, it has been more than 10 years now since a major study and follow-on policy agenda was developed concerning the future of manufacturing. While only accounting for 13% of GDP manufacturing will continue to account for 40% or more of Australian business R&D during the next decade. The time has come for another "Global Challenge" Study on the future of manufacturing that

should provide the basis for a 10 year planning framework to rebuild this important industry for the benefit of all Australians.

In concluding, the AMWU would make two additional points. For some time now the Australian public sector has led Australia's R&D efforts and been recognised as being near the top of the list of OECD countries for R&D undertaken in Government agencies and universities. During the first five years of the Howard Government, this reputation Australia had was damaged by funding cuts and loss of strategic direction.

The focus and funding in the Government's "Backing Australia's Ability package" is an important corrective action to the last five years. The funding for basic research and the R&D infrastructure in that package was vital to repositioning Australia's investments in R&D through Government agencies and universities. However it must be recognised that the majority of the funding for this package does not begin until 2004-2005 and 2005-2006 which is more than three years away. The history of Government policies that are pushed out three or four years (when estimates of the likely budget surplus are much larger) is that they are prime candidates for razor gang expenditure cuts when needed. If this occurs it will damage Australia's international reputation for decades and undermine any confidence that Government is serious about investing in innovation.

Finally, as the AMWU pointed out in our report *"Rebuilding Australia" Manufacturing in the New Economy*, (July) 2000) the future of nation-building and wealth creation in the decade ahead will depend heavily on how much Australia invests in education and innovation. As shown in the table opposite the typical OECD country over the next decade will:

- Have public spending on education equal to 5 to 5.5% of GDP each year. Even after the Howard Government package, Australia will struggle to invest 4.5% of its GDP in education.
- Public and private spending on innovation will average 3.5 to 4% of GDP each year. Even after the Howard Government package Australia will struggle to invest 3% of GDP in innovation.

This nation can't afford to spend 1.5% of GDP less on education and innovation over the next decade compared to other industrialised nations. This knowledge deficit will be more than \$10 billion in 2001-2002 and more than \$16 billion in 2009-2010 if we don't develop and adequately fund a strategy for investing in education and innovation. To invest around \$130 billion less (relative to GDP) than the typical OECD country in education and innovation over the next decade would be to condemn a generation of Australians to high unemployment, stagnant living standards and diminished social cohesion and community well being. The time has come to put this issue at the centre of the next federal election so that the nation can choose the best program for nation-building through investment in education and innovation.

## NATION BUILDING IN THE KNOWLEDGE ECONOMY 2000 TO 2010

### Public Spending on Education

- \* Schools, TAFE, Universities
- \* IT Literacy: All Citizens
- \* On/Off The Job Training
- \* Life Time Learning and Skill Development

5% to 5.5% of  
GDP

### Public and Private Spending on Innovation

- \* Research and Development
- \* New Products/Processes
- \* Design/Engineering Capability
- \* On Line Economy Capability

3.5 to 4.0% of  
GDP

Knowledge  
Based  
Wealth  
Creation

### Private Spending On Education and Training



## **APPENDIX TWO**

**REALLY MAKING A DIFFERENCE:**

**AUSTRADE'S CONTRIBUTION TO**

**INVESTMENT PROMOTION**



## PART THREE

### REALLY MAKING A DIFFERENCE: AUSTRADE'S CONTRIBUTION TO INVESTMENT PROMOTION

The origins of Austrade's role in promoting investment date back to 1986, although it was only in 1987 that this role was formalised.

Through a cabinet decision taken on the 26th March 1987, the Industry Minister, John Button, and the Trade Minister, John Dawkins, were instructed to:

***"bring forward a submission on an investment promotion strategy to reinforce the existing policy of welcoming foreign investment and which would be the next step in developing competitive Australian industries capable of competing in world markets."***

Then, three months later, the Government announced the establishment of the Investment Promotion Program (IPP) with the Industry Department (DITAC) having policy responsibility for IPP and Austrade being the delivery agency overseas with support from our domestic operations. A joint DITAC/Austrade IPP Management Committee was established to guide the program, and the Government gave the program a six year life (June 1987 to June 1993) before its future would be reconsidered. Later the program would be renamed the Investment Promotion and Facilitation Program (IPFP). Today it is called "Invest Australia".

While the McKinsey Review team had Austrade's investment promotion function in its terms of reference, the issue was only touched on indirectly, leaving it to the Board to have an investment task force report on Austrade's role in the post McKinsey environment. Comprising both Austrade and Industry Department representatives and assisted by the consultancy firm, the Stanford Research Institute (SRI), the task force completed its report in mid-1991.

During the decade after this Report for the Austrade Board, successive Australian Governments "fine tuned" and changed the nation's approach to investment promotion. As a result, there was somewhat less continuity and natural evolution in Austrade's investment promotion role than was the case with the Commission's export facilitation function. For example in 1993, the Labor Government transferred the overseeing role of the Investment Promotion Program out of the Industry Department into Treasury, the agency that housed the then Development Allowance Authority (DAA). The DAA was responsible for the investment allowance and infrastructure incentives announced in Prime Minister Keating's One Nation Statement (February 1992).

After the mid-1990's, responsibility for the Investment Promotion and Facilitation Program (IPFP) had been transferred back to the Industry Department. Then in 1997, the Program was overhauled in line with Prime Minister Howard's "Investing for Growth" statement which, acting on the recommendations of the Mortimer Review, brought a private sector Chief Executive Officer, Bob Mansfield, into the Program, as the Strategic Investment Co-ordinator to focus on

major projects where additional incentives might be required. In December 1999, Fergus Ryan, formerly managing partner and CEO of Arthur Anderson Australia, took over from Mansfield as the Government's Strategic Investment Co-ordinator and Major Projects Facilitator.

Austrade's domestic and overseas operations continued to play a leading role in investment promotion during all of these changes. And while the Investment Promotion and Facilitation Program in 2001 (known today as Invest Australia) is different in a number of respects from what existed a decade ago, many of the strategic issues and several of the principles of best practice investment promotion as set out in the 1991 Investment Task Force Report and debated at the Austrade Board over the 1991-94 period remain very much the same today.

Bill Ferris, Austrade's Chairman, had asked the Investment Task Force to assess and report on -

- a) the optimum nature of Austrade's future involvement in the investment process, based on experience to date.
- b) organisational and staffing requirements in the context of the post McKinsey Austrade.

At the time of the review there were seven main objectives that had been established for the Investment Promotion Plan and three preliminary strategies for achieving these objectives as set out in the table opposite. By May 1991, the IPP had recorded 48 "successes" in terms of overseas investment coming into Australia and these were valued at \$900 million, and a system developed which helped to define the role the IPP played in attracting the investment) being either incidental facilitation, substantial involvement or the lead role). I emphasise this last part because for all export facilitation and investment promotion agencies around the world there is always a dilemma of trying to measure the impact your efforts have and capturing this impact in key performance indicators. As the Investment Taskforce Report noted:

***"A difficulty that Austrade has faced as an organisation is quantifying performance and achievements in a process (export facilitation) over which it does not have full control. Austrade for instance can rarely point to export contracts or sales that it has actually negotiated although it will frequently facilitate and even initiate the process leading to such contracts. The same difficulty exists with investment promotion.***

***(Source: Investment Task Force Report, May 1991, pg 16).***

Much of Austrade's investment promotion efforts in those early days involved:

- Using our domestic operations people to liaise with investment/merchant banks, accounting and legal firms to develop investment briefs for our handful of Trade-Investment specialists in the field.
- To sponsor investment promotion missions and with the Industry Department to develop brochures and information about Australia as an investment destination.

- Co-ordinating with State Governments who have always been keen on investment promotion.
- Getting our offshore specialists to operationalise their three roles offshore being:
  - a) **image building** and developing a pipe-line of investment inquiries;
  - b) **match-making** involving targeting opportunities and matching them with potential investors;
  - c) **deal making** involving the first stages of putting together what is required for an offshore business to close a deal for investing in Australia.

## **AUSTRADE'S GOALS AND OBJECTIVES FOR THE IPP PROGRAM**

The principal Investment Promotion Program objectives as set out in the 1990-91 Plan, in summary form, are to:

1. Attract substantial foreign investment into the Australian manufacturing and services sectors in the form of capital, technology and management skills.
2. Encourage and facilitate capital investment, joint ventures, strategic partnerships, and other forms of collaboration which will help to achieve these aims.
3. Match targeted industry sectors to targeted countries and regions.
4. Overcome perceived doubts of foreign investors about the viability of Australia as an investment destination.
5. Support the efforts of the private sector to establish investment linkages.
6. Increase the involvement of Trade Commissioners in investment promotion activities.
7. Ensure the co-ordination of State and Commonwealth activities in investment promotion.

### **INITIAL STRATEGIES**

The initial strategies established for the program (1987-1990) to meet the above objectives were:

- to recruit and establish overseas investment specialists in key markets.
- the general marketing or "positioning, i.e. the development of promotional programs in order to lift Australia's image as an investment destination and to attract and process enquiries from potential FDI parties.
- to establish an Investment Enquiry Service (IES) in Canberra which would act as the focal point for match-making and provision of industry specific information on Austrade's investment environment. An important role for the IES has been to act as the linkage between the Federal and State Government investment promotion units.

The rationale has been to "kick-start" the investment process with an infusion of expertise and funds in the early years of the Program and to put some "runs on the board".

When the Task Force looked at what we were actually doing and the Board debated the issues, it was clear that at least five key problems had to be addressed.

First of all, too much of our limited budget (about \$2 million a year for the first several years) was being spent on image building; and the investment briefs had too broad an industry focus instead of "allowing precise targeting of key overseas clients at a senior management level".

Secondly, compared to the investment initiatives of the Singapore Economic Development Board, the Malaysian Industry Development Authority and Thailand's Board of Investment we were under-resourced and had no investment incentives to package around a particular deal.

Thirdly, when the Austrade Board initiated a review of Austrade's industry export strategies, the consultant told us that they lacked a whole of government approach. Effectively they were Austrade strategies, not "Australia Inc." strategies. The same was true of our investment promotion efforts. Fourthly, we had to get in place a proper training program, particularly so we could involve our trade commissioner network more effectively. The "new" Austrade post McKinsey was making heavy demands on their skills and not providing sufficient backup and support. Finally, the 12 recommendations brought by the task force to the Board had a number of specific organisational structuring issues that needed to be addressed so we could effectively integrate the image building, match-making and deal making functions.

I should emphasise at this point that to be a world class investment promotion agency, you have to have, amongst other things, the right people in the right place at the right time doing the right things. To the extent that Austrade began to move up a steep learning curve in the right direction there were a number of people who helped make that happen. One in particular was Charles O'Hanlon. After nearly two decades of overseas experience as an assistant trade commissioner in New Delhi and Manila, Commercial Counsellor in Washington, Brussels and Geneva, and then under the new Labor Government our Ambassador to Algeria and Tunisia, Charles took over as Manager of the Investment Promotion Program (1987-89) and then Senior Trade Commissioner in Paris (1990-94). It was Charles who had to forge an investment promotion program within Austrade integrating our domestic and overseas operations during the set up stage. Perhaps more importantly was his input from Paris which was by far and away the most advanced of our posts in getting into company boardrooms and exercising both the match-making and deal making functions. I still have a copy of the Paris posts investment promotion questionnaire input to the task force review dated 12th April, 1991. It was in fact included in Attachment 2 of the Report that went to the Board and hit all the right buttons on what had to change and also why we needed a 70%/30% split in promoting inwards and outwards investment moving to 60%/40% over time as globalisation pushed more Australian exporters into offshore investment activities and strategic alliances. Charles had an excellent understanding of the right balance and structuring of the image building, match-making and deal making functions. He also understood all too well the key role of specialist investment commissioners as well as the training and experience required in moving Austraders through the assistant trade commissioner ranks and up through the trade commissioner service while enabling them to accumulate investment promotion skills.

There is one other point I need to make about Charles O'Hanlon, and people like him, and it goes well beyond investment promotion. If you want to be a world best practice export facilitation and investment promotion agency, you need people who can help the organisation integrate the strategic development work that people like Ron Maxwell (our Chief Corporate

Planner) and Ian Buchanan (the head of the Stanford Research Institute in Asia who was assisting Austrade) were doing, with both the people in the trade commissioner service, and those in our domestic and overseas posts.

For some of our people out in the field (and dare I say it, in the boardroom as well!) there is from time to time a "mindset" which suggests:

***"Look mate, this stuff isn't rocket science, so cut the academic jargon and bullshit and let us get on with the job of being an Austrader and making things happen."***

I actually have a lot of time for this "mindset". Inside my own union over the past 15 years, we have told our union organisers out in the field to: look after the members' wages and conditions, sell superannuation, go out and organise the non-union shops, get the members across Manusafe (a fund to protect employee entitlements), explain our industry development strategy to the members and the importance of paid education leave; help the members develop an alternative strategy for layoffs or closure and do all this while you get up to speed on everything else we need you to do! Understandably there is a healthy suspicion they have about the strategic planning framework (and associated jargon) we use to show them why it is absolutely essential.

The work that goes on in Austrade's strategic development operations often resembles an engineering manual of flow charts and matrix's. Talking to the Maxwell's, Twomey's and Joffe's is sometimes like sitting down with people who have 20 chess boards in their head making simultaneous moves on each. In 1990-91, Maxwell and Buchanan were doing this with our investment promotion function. And besides Buchanan there was an SRI woman trained the hard way, in McKinsey's New York offices, who was helping Maxwell develop a strategic market assessment model (SMA) for targeting our activities. And all of this required the support of the trade commissioners and the posts who besides everything else they had to do were now being told to meet the cost recovery targets, target your opportunities, promote investment, etc., etc., etc.

Charles O'Hanlon and Austraders like him understand the importance of the work that comes out of strategic development and the implications and realities for our people in the field, particularly when you're usually asking them (as we were in the first three years of IPP) to do it all on a shoestring budget. To the extent that Austrade has succeeded in investment promotion, a lot of the credit goes to those who help getting all parts of the organisation to deal with these realities. And whether in his subsequent roles as head of Austrade's domestic operations or our EGM for European operations, Charles has never been shy to bring the realities of the investment promotion function into the Austrade Boardroom, call a spade a spade and work to get the benefits that absolutely must flow from defining strategic directions and operationalising them in the field and supporting them with an adequate budget.

It took me quite awhile as a Director to get my head around these issues. In the early years Paul Trainor (a great Austrade Director and founder of Australia's premier hi-tech company at the time Nucleus - now Choclear) and I voiced the view that inward investment was selling off

the farm and outwards investment was exporting jobs. We weren't quite that bad and on several occasions there were specific cases where the Board had to decide whether to support a particular project with a loan or grant given the potential costs and benefits. Over time, I became convinced by the McKinsey study of Australia's Emerging Exporters for the Australian Manufacturing Council (1993) and the then Bureau of Industry Economics Study, *"Investment abroad by Australian companies: issues and implications (1995)"*, that inwards and outward investment flows were fundamental to strengthening Australia's tradeables sector and building better internationally competitive businesses that could provide some job security and a decent standard of living for working people. There will always be cases where this isn't so and some of my members lose their jobs because of the way that the realities of globalisation are played out. But moving forward through the 1990's, I also saw a lot of examples where jobs were saved or created because of the inward and outward investment Austrade helped to promote.

The key issues raised in the Investment Task Force Report were taken on board by Austrade, the Industry Department and Government. By 1993-94, the Investment Promotion Program had a budget of around \$7 million, more than the funding provided for the first three years of the program in total. About 60% of the Austrade funds went to Austrade's overseas investment offices with around 25 full-time specialists deployed in New York, Los Angeles, Paris, Milan, London, Frankfurt, Tokyo, Hong Kong and support staff in Taipei, Shanghai and Beijing. We also had part-time consultants in Denmark and the Netherlands and the majority of the investment counsellors had a background in merchant banking or senior corporate management. The other 40% of the Austrade part of the operation was located in Sydney and Melbourne with senior staff here also having a background in investment banking or corporate finance.

The thrust of the program had shifted as advocated by the Investment task force in 1991 from a publicity-information provision function (image building) with a reactive role of responding to requests, to a more proactive role (match-making and deal making) targeted at key firms and opportunities around which was built the research program, databases, a case-tracking system and an ongoing training program for our staff.

By 1995-96, additional investment office facilities had been established in San Jose (a sub-office to tap into the IT industry in Silicon Valley and attract venture capital), Chicago, Singapore as well as a sub-office in Osaka.

The table opposite provides a summary of the 375 projects that were facilitated by the Investment Promotion Program during its first decade of existence. This data was published with the permission of Austrade in a report I prepared in September 1997 entitled *"Rebuilding Australia: Industry Development for More Jobs"*. While not perfect, I have tried to group each of the industry sectors in the table into four groups being IT and T (mainly call centres, regional headquarters, etc.) Services, Simply Transformed Manufacturers/Primary Products and Elaborately Transformed Manufactures. As the table suggests:

- Around 28% of the projects, 15% of the \$ value of investment and 6% of the exports came from investments in the IT and T sector.

- Services and Simply Transformed Manufactures/Primary Products each accounted for nearly 20% of the \$ value of investments. However, the bulk of the \$3 billion in exports (64%) came from projects associated with Food processing, Agriculture-Forestry-Fishing, Mining and Energy, Metal products and Forest products.
- While ETM's accounted for a third of the projects facilitated by the Investment Promotion Program, they accounted for less than 20% of the \$ value of investment and just over a quarter of the export income generated by all 375 projects.



### OUTCOMES FROM THE FIRST DECADE OF THE INVESTMENT PROMOTION PROGRAM

		<b>Number of Projects</b>	<b>% of all Projects</b>	<b>\$Million Investment</b>	<b>% of all Investment</b>	<b>\$Million Exports</b>	<b>% fall Exports</b>
1.	IT and T (RHQ's call centres, etc.)	105	28%	1161	15%	172	6%
2.	Total services	73	19.5%	2715	34%	134	4%
(a)	Retail Trade	6		31		0	
(b)	Government Administration/Defence	3		90		0	
(c)	Construction/Infrastructure	5		45		0	
(d)	Transport/Storage	6		18		0	
(e)	Communications	6		396		0	
(f)	Utilities	11		1635		0	
(g)	Finance/Insurance	13		399		31	
(h)	Other Services	23		101		103	
3.	Total Simply Transformed Manufactures and Primary Products	73	19.5%	2734	34.5%	1927	64%
(a)	Food Processing	22		448		437	
(b)	Agriculture, Forestry, Fishing	17		233		30	
(c)	Mining and Energy	16		640		310	
(d)	Metal Products	15		1302		1080	
(e)	Wood/Paper Products	3		111		70	

4.	Total Elaborately Transformed Manufactures	124	33%	1317	16.5%	782	26%
(a)	Chemicals/Pharmaceuticals	35		434		143	
(b)	Machinery and Equipment	19		172		94	
(c)	Other Manufacturing	43		287		224	
(d)	Auto and components	10		215		5	
(e)	Printing, etc.	4		20		2	
(f)	Building Products	3		26		27	
(g)	TCF and Leather	10		163		287	
5.	Total All Industries	375		7927		3015	

From Austrade's Annual Reports (1995-96, pg 33, and 1996-97, pg 46), we also know that more than \$5.7 of this investment facilitated under the IPFP program occurred in the four years to July 1997. Independent consultants surveyed/phoned the clients who made their investments to determine the role played by the IPFP Program. The Investors reported that -

- Just over \$600 million or 11% of the investment would not have occurred without the assistance of the IPFP Program.
- Almost \$2.5 billion or 43% of the investment was where the IPFP played a key role in the investment decision.
- More than \$2.6 billion or 46% of the investment was where the IPFP played a positive role in the investment decision.

Many of these "wins" were achieved because of the hard work and strategic efforts by Austraders both in Australia and overseas. But there were also important cases where a broader "Team Australia" approach was adopted.

A good example of the IPFP Program being integrated in a whole of Government investment promotion effort as recommended by the 1991 Investment Task Force and again by Mortimer in 1997, was Australia's efforts, in competition with Singapore and Hong Kong, to get multinational corporations to establish their regional headquarters (RHQ) in Australia. The promotion of RHQ investment was one of the very few occasions where a whole of Government approach was undertaken. This approach combined the image building, match-making and deal making functions of investment promotion and integrated the investment incentives (on a deal by deal basis) of both Commonwealth and State Governments (with the States considering the provision of direct financial grants, training, land and facility packages

while the Commonwealth provided tax exemptions for imported computer equipment, feasibility study fund grants, removal of withholding taxes on certain dividends distributed through Australia, tax deductibility for certain relocation costs and streamlining immigration procedures - on a case by case basis).

The co-ordination of the regional headquarters program also involved networking activities with 26 of Australia's leading CEO's (a number with strong American, European and Asian business networks) who were known as the RHQ Leaders Network and a key role being played by Telstra to market to prospective investors the benefits of Australia's communication infrastructure. The success of Australia's RHQ program was recognised at the Fifth Annual Meeting of international Investment Promotion Agencies held in Amsterdam in September 1994 where it won "Best Campaign for Excellence 1994". By the end of the 1990's, Australia could point to some 400 international companies who had established regional headquarters and/or operational centres in Australia, representing new investment of almost \$7 billion. Austrade and the Invest Australia program played a key role in helping this to happen. The RHQ investment promotion program was one of the few occasions in the past 15 years where many of the characteristics of best practice investment promotion were exhibited including:

- 1) Integration of the three investment promotion functions (image building, match making, deal making).
- 2) A whole of Government approach.
- 3) Networking and Partnership with the States.
- 4) Involvement of corporate champions and agencies whose infrastructure support is vital to success.
- 5) Well researched and targeted investment briefs and insider intelligence on competitors incentive packages.
- 6) Integration of domestic and international promotional efforts.
- 7) Integration and packaging of the investment incentives around the particular requirements of the target (in this case RHQ's).
- 8) A logical ordering and prioritisation of the investment incentives to -
  - a) attract initial interest;
  - b) support inward visits and follow-on feasibility studies;
  - c) provision of appropriate data for the target to benchmark Australian locations against overseas competitors' locations;
  - d) provision of an attractive package in terms of capital costs and provision of appropriately skilled labour;
  - e) fast track follow-through measures to facilitate project implementation after the approval and go-ahead has been given by the Targets Board.

It is a real credit to the political leadership provided in the first half of the 1990's by Peter Cook and Bob McMullan, their Departments, the Australian Trade Commission, and all other parties

involved to kick start the RHQ initiative so successfully. Unfortunately, nothing like this has ever been accomplished (let alone attempted) for targeted strategic industries in manufacturing, let alone attracting investment into regions of high unemployment to boost jobs and strengthen the local supply chain network. Yes, Austrade and/or Australia has done well in promoting RHQ's, tourism, follow-on investment from the Olympic Games, downstream processing projects and the occasional new greenfield manufacturing facility. But until the comprehensive and integrated approach exhibited in the RHQ campaign is replicated for manufacturing and high unemployment regions, Australia in my opinion will continue to have, in the Australian Trade Commission, one of the best export facilitation agencies in the world and an average performing investment promotion agency that does a good job for the limited ambitions, strategic objectives and funds accorded to it by the Government of the day.

It is true that the successor to export facilitation in the vehicle industry, the investment promotion program in Pharmaceuticals as well as initiatives in biotechnology and venture capital will be responsible for encouraging substantial investment in manufacturing during the next decade. However, there are a wide range of science-engineering and technology intensive manufacturing industries where little strategic thinking has been done about a whole of Government investment promotion strategy. The same applies to targeting investment to regions with high unemployment.

Of course an investment promotion strategy in manufacturing has other dimensions that need to be taken into account. As pointed out by McKinsey and Company in a presentation to the Australian Manufacturing Council one year after their Report for Austrade, there is also a role for Government in encouraging best practice in helping Australian-based manufacturing foreign subsidiaries attract greater investment from their parent company. This requires highly-motivated Australian management who aggressively market Australia in their parent companies' world headquarters and on the investment committee. This requires of Australian management:

- Developing a vision for Australia as a regional presence and a centre for manufacturing.
- Making Australian operations world class.
- Putting Australia on the screen of world headquarters and communicating the key themes over a number of years.
- Focusing on specific opportunities and working in partnership with Government to facilitate serious consideration of the proposals arising from these opportunities in world headquarters.

Combining the RHQ integrated and co-ordinated approach to investment promotion (with the added element of a strategy focused on the Australian operations of MNC's) and focusing this on a number of strategic industries/firms in manufacturing (as well as the locational issue of high unemployment regions) is a challenge that Australia's investment promotion efforts have yet to address. Hopefully some day Government will tell Austrade and the Industry Department:

- We want the Invest Australia program to facilitate \$4 billion in investment each year for the next five years.
- We want half of this to come from elaborately transformed manufactures which is more in one year than we have achieved in the 10 years to 1997.
- And we want at least \$2 billion per annum to be located in regions of high unemployment.
- Tell us what it will cost and how to do it.

That would be a worthy challenge for Australia and one I know the Australian Trade Commission and the Industry Department would rise to in the process of becoming a world class investment promotion agency. But for that to happen, Government must take the lead.

Another important change in emphasis in Australia's investment promotion efforts came in 1997-98 when Prime Minister Howard announced the Government's "Investing for Growth" strategy. The Investment Promotion and Facilitation Program was subsumed into "Invest Australia" and a strategic investment co-ordinator appointed to focus on major projects and to advise the Government on whether/how to provide incentives for such projects on a case by case basis. In September 1999, further initiatives were taken for facilitating capital intensive resource processing project investment in light of the trade-off in the Government's new tax package which lowered the corporate tax rate while scrapping the accelerated depreciation arrangements that had been particularly favourable to equipment investment with a long asset life.

The announcement by the Howard Government of these changes to the Investment Promotion Program was in response to the June 1997 Mortimer Report, "Going for Growth: Business Programs for Investment, Innovation and Export". The Prime Minister's announcement embraced virtually all of the seven recommendations Mortimer made on investment promotion. Importantly this included the tailoring of investment incentive packages around key projects. The Coalition Government's rationale and criteria for doing this are set out in the table opposite.

## **OBJECTIVES OF THE STRATEGIC INVESTMENT CO-ORDINATION PROCESS**

"In the global environment, investment capital is highly mobile and competition for investment is vigorous. It is common for companies with prospective investment projects to seek from governments the most lucrative package of investment attraction measures available. Australia's key advantage as an investment location will continue to be the strength of our economic fundamentals ...

The Government is not disposed towards providing across the board investment incentives ... however in some circumstances there may be a need for specific incentives to be provided to secure strategic investments for Australia ... Such incentives could include grants, tax relief or the provision for infrastructure services.

Proposals for investment incentives will be considered on a case by case basis by the Strategic Investment Co-ordinator in accordance with eligibility criteria set out below. The Strategic Investment Co-ordinator will have responsibility for advising cabinet through the Prime Minister about strategic projects that may warrant the provision of incentives. In this role the Strategic Investment Co-ordinator will be supported by Invest Australia. The indicative criteria are:

- The investment would not be likely to occur in Australia without the incentive.
- The investment provides significant net economic benefits through -
  - a) substantial increase in employment;
  - b) substantial business investment;
  - c) significant boost to Australia's R&D capacity;
  - d) significant benefit to, or investment by, other industries, either users or suppliers (cluster investment); and
  - e) ensuring that it does not involve substitution of existing production capacity which would provide an unfair advantage over competing projects.
- The investment complements Australia's areas of competitive advantage.
- The investment is viable in the long term without subsidy.
- The incentives are open to foreign and domestic investors.
- The quantum of project specific assistance takes into consideration the availability of other assistance from the Commonwealth or State and Territory Governments.
- Any incentives are consistent with our international delegations including

under WTO.

*Source: Senator Nick Minchin: Press Release, December 8, 1999: Fergus Ryan, NSW Strategic Investment Co-ordinator.*

It's probably too soon to tell how effective this approach will be. Early initiatives have included providing an investment incentive package to a pulp and paper project in NSW and a proposed alumina refinery project (with virtually no Australian fabrication content) in Queensland. Major Project Status (which brings with it measures to fast track/facilitate the project) has been accorded to a fertiliser plant, an oil shale processing plant, an iron- ore mine, while an R&D start grant helped kick start a demonstration pig iron smelter at Whyalla. Few initiatives have been taken to promote ETM investment although General Motors Defence did establish its Asia Regional Headquarters in Adelaide. Then, following a successful bid to supply 150 light armoured vehicles to the Australian Defence Forces, GM announced that it would establish a fabrication facility in Adelaide as the sole global turret fabricator for GM's international light armoured vehicle program.

During the first three years of Invest Australia, around \$1 billion to \$1.5 billion of inward investment has been attracted each year, which is broadly in line with what has been achieved each year since 1994-95. Prior to the establishment of Invest Australia, our key performance indicators for attracting investment highlighted the role (lead, substantial or minor) played by the IPFP. To this has been added a new category "facilitation" which basically involves assisting major projects take place after the investment decision has been taken. <sup>22</sup>

How does Australia's experience with investment promotion compare to other countries? In looking at Australia's experience of promoting foreign direct investment (FDI) and comparing this with the experience of two of the most successful investment promotion agencies in the world (being those in Singapore and Ireland) I think it is important to be realistic about what lessons we can learn. For starters:

- In 1999 foreign direct investment (FDI) in Ireland was equal to almost 20% of GDP. In Australia by contrast it was closer to 1% of GDP. During the 1990's Ireland has consistently increased its global share of FDI particularly in strategic industries. Australia by contrast has seen a steady fall in its global share of FDI particularly in strategic industries. (Source: IMF Prospects for the Global Metal Industry pp23).
- It takes nearly 5 years for the Invest Australia Program to help attract \$6 to \$7 billion of FDI of which 10% to 15% is investment where the Program is absolutely essential in making the investment happen. In Singapore by contrast, in one month alone (December 2000) the country's investment promotion agency succeeded in attracting a \$6.5 billion memory chip fabrication plant (that will produce up to 40,000 12 inch wafers a month) from the world's second largest manufacturer of computer chips, United Microelectronics of Taiwan. The

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<sup>22</sup>. There will always be a debate about the extent to which Austrade and Invest Australia played the lead role in securing an investment for Australia. For example, the recent decision by GM Holden to build its new engine plant in Victoria is an important ETM investment win for Australia. However, my own view is that this had less to do with the Invest Australia Program and much more to do with incentives provided by the Victorian Government on the one hand, and GM's understanding of how it will access the \$2 billion (over 5 years) Commonwealth Program for the Auto Industry which replaced export facilitation. The commitment of the local management team was also decisive. Nevertheless, I do believe that until something better is found the only way that the key performance indicators for investment promotion can be constructed is via a third party surveying the investor to ascertain what role if any is to be accorded to Invest Australia.



key to the deal, and openly acknowledged by both sides, was the 5 to 10 year tax holiday offered by Singapore.

For more than 20 years now both Ireland and Singapore, unlike Australia, have consciously chosen to focus their investment promotion programmes on those key manufacturing industries that are most knowledge and technology intensive (ICT, pharmaceuticals, and other science-engineering based elaborately transformed manufacturers). They were correct in understanding that they had to have the right incentives to attract these industries (the 10% corporate tax rate in Ireland and the 5 to 10 year tax holiday in Singapore with each deal tailored to the specifics of the project); that the incentives had to be kept consistent and in place for several decades; and that as a critical mass of these new greenfield manufacturing facilities developed they would:

- a) attract follow-on investments and move the industry structure up the value added chain;
- b) require major Government led initiatives to transform the education system and up-grade the nation's skill base as well as the provision of supporting infrastructure;
- c) create a fundamental tension between the facilities established by multinational corporations through FDI and Ireland and Singapore's own local companies (although it is fair to way that it took until the early-mid 1990's for this tension to be sufficiently recognised to generate appropriate policy responses).

In Australia by contrast in 2000-2001 we are still having a debate about whether or not it is good enough just to be a high consumer of the new technologies rather than a producer. While Singapore and Ireland have a practitioner's policy debate where 90% of it is devoted to "how to do it better", Australia spends 90% of its policy debate on the "academic" issue of whether or not to do it at all. In addition, rather than 2 decades of continuity and relative consistency in the appropriate packaging of incentives, Australia has so often chopped and changed the few investment incentives we have that the point has now been reached where I suspect many firms apply a discount rate to the net present value of the incentive on the grounds that there is no certainty that it will continue. This is why it was so important for the Mortimer Review in 1997 to recommend 5 year guaranteed funding for Australia's trade and industry development programs. It's also why the Austrade Board in its recent review of EMDG recommended at least 5 years of policy and funding certainty, even though we knew Treasury and Finance would oppose this for, amongst other reasons, the fact that the Budget forward estimates only go out 3 years.

These are some of the reasons why one must be realistic in drawing comparisons between the investment promotion experiences of Ireland, Singapore and Australia. In 1997 the Buckeridge Report "Spectator or Serious Player : Competitiveness of Australia's Information Industries" provided one example of where Australia's debate was when it pointed out:

***"Australia is a world-class consumer of information technology and telecommunications products and services, accounting for over 2 per cent of the world market. However, Australia is punching far below its weight as***

***a producer and exporter, accounting for less than 1 per cent of world production and 0.3 per cent of world exports ... It is not on the screen of either the globalising US venture capital funds .... or the leading information industries multi-national corporations as a location for globally scaled investment."***

By contrast, in the same year 1997 Singapore's Minister for Industry and Trade, Mr. Yeo Cheow Tong, was explaining the nation's Manufacturing 2000 Vision. This statement highlighted in the box on the opposite page demonstrates how:

**STATEMENT BY THE SINGAPORE MINISTER FOR INDUSTRY AND TRADE MR YEO  
CHEOW TONG;  
THE MANUFACTURING SECTOR: IMPROVING NATIONAL COMPETITIVENESS**

"Our aim, as contained in the Manufacturing 2000 vision, is to maintain the share of manufacturing at more than 25 per cent of GDP and more than 20 percent of employment. The key thrust of the Manufacturing 2000 plan is to improve national competitiveness by adopting the concept of industry cluster development. An industry cluster is a group of companies with strong linkages either vertically (as in buyer-seller relationships) or horizontally (as in having common customers, technology or distribution channels)." ..... "In Singapore, the dominance of the electronics sector is not a new development. With advances in technology, electronic components are found in most industrial and consumer products. For example, the now-common personal computer, laser disc systems and microwave ovens would not have been possible without the microchip. As far back as 1983, the electronics industry was already the largest industry within the manufacturing sector, accounting for 19 per cent of total value added. Since then, the electronics industry has surged ahead with an average annual growth rate of 20 per cent per year. In 1993, it accounted for 41 per cent of value added.

In 1983, producing electronic products meant producing consumer goods like radio cassette recorders, TV sets and the assembly of semi-conductors. By 1993, the electronic industry had moved on to the fabrication of silicon wafers, production of sophisticated personal computers and high-end disk drives; and being in the business of manufacturing TV sets now includes making the colour picture tubes and designing ultra-modern sets for the global market ..... Nowhere is the upgrading more clearly seen than in the skills profile of the workforce. In 1983, there was one professional or technical worker to eight production workers. By 1993, the ratio has increased significantly to 1:3.

The key thrust of the Manufacturing 2000 plan is to improve national competitiveness by adopting the concept of industry cluster development. We believe that industry clusters have to achieve a certain minimum configuration in order to be competitive. With this, an industry cluster can attract more investments and resources because of its competitive advantages like economies of scale, mutual support and reinforcement, greater innovation and freer exchange of information. The cluster development strategy recognises that the competitiveness of any industry depends on several factors and that cost is only one of them. In fact, with the emergence of new technological trends like the miniaturisation of products in the electronics industry, convergence of technologies and outsourcing of non-core business activities by multinational companies (MNCs), labour cost is increasingly becoming a smaller factor in the overall competitive balance. In its place, capability-driven factors influencing competitiveness, such as the presence of related industries, skilled man power in relevant industrial disciplines, technology competence centres and specialised and efficient infrastructure, have become more important. Maximising these capability-driven factors will help to give our industries a sharper competitive edge.

The cluster development approach also points to the importance of having a strong services sector. As manufacturers move up the value-added ladder, they will need capabilities in product conception, product and process development, strategic marketing, product management, distribution and technical support. Both our manufacturing and services sectors are therefore complementary and mutually reinforcing. Together they complete the range of value-adding activities which Singapore

can offer. Both foreign and local companies will find it attractive to use Singapore as a home base from which to tap into the vast opportunities in the Asia-Pacific region."

- Singapore has a clear understanding of the strategic importance of manufacturing and a long term vision and strategy for its future.
- Singapore's investment promotion program has accelerated the progression of the country's industry structure up the value added chain of the most science-engineering-technology intensive parts of manufacturing.
- Has now focused on industry clusters and service-enhanced manufacturing so that investment promotion and other policies are focused on strengthening all aspects of the supply chain.
- Moved well beyond the "cost reduction" competitiveness paradigm to a recognition that "capability factors" are the new heartland of competitiveness within the supply chain rather than the single firm.

In both Singapore and Ireland the investment promotion program and the industry-trade programs that compliment it create their own internal dynamic where the problems that emerge (relatively low levels of R&D, in some sectors, weakness in parts of the supply chain, the need to upgrade the capabilities of local companies, targeting both goods and services within the whole supply chain, etc.) are those that naturally-inevitably arise as the industrial structure is pushed higher up the value added chain.

Nor should we underestimate the policy challenges that arise in Singapore and Ireland as a result of attracting so much multi-national FDI in the higher value adding ETM sectors. For example, as one study suggested recently:

- Ireland is the 5th largest exporter of computers in the world and 34% of the world market in computer software is supplied from Ireland making it larger than the United States.
- FDI accounts for two thirds of manufacturing output and over 80% of manufacturing exports in Ireland.
- While only having 1% of the EU population Ireland in 1997 attracted 55% of Europe's FDI in computer software, 28% of Europe's FDI in teleservices (1994-97) and 22% in electronics and 13% for manufacturing generally. Nineteen of the top 25 computer companies in the world manufacture in Ireland.

(Source: R. Green - Regional Innovation, the European Experience)

However, during the 1990's Ireland also had one of the largest deficits in its "technology balance of payments" and one of the lowest OECD shares of R&D in value added. Much of the 1990's has required the Irish policy authorities to focus on correcting these problems and building indigenous ETM and service enhanced manufacturing in its own local companies, as well as "encouraging" R&D and product development from the MNCs. These problems are to a large extent the product of its very success in attracting so much FDI in the core ETM

industries that have and will continue to dominate both world trade and the market for attracting global scale investment.

Singapore is facing a similar challenge. When Professor Richard Lester and the team from the Massachusetts Institute of Technology (MIT) were invited to Hong Kong to prepare a study on the future of manufacturing there was quite a debate over which model Hong Kong should emulate - the Taiwan approach of upgrading its local indigenous players into global scale players or the Singapore model of attracting MNC FDI. A summary of that debate is highlighted in the box opposite where Professor Lester and his MIT colleagues explain the problems that can emerge when a high value added cluster or supply chain is built around the FDI of a large foreign multi-national corporation.

Again because in most (but certainly not all) ETM industries, Australia has neither the indigenous players who have reached global scale or any significant FDI to establish a major industry, the problems encountered by Ireland and Singapore are very different to ours. In the turn of phrase used by Buckeridge, Ireland and Singapore are players and have spent 20 years in promoting investment and designing their trade and industry policies around building up the key ETM industries. Australia is mainly a spectator and after 15 years in the board room of the Australian Trade Commission, I see little evidence to suggest that this is likely to change in the near future unless the Government of the day determines to substantially change what we are currently doing.

## INVESTMENT INCENTIVES AND DEVELOPING LOCAL SUPPLY NETWORKS

Dependence on the foreign enterprises carries with it another kind of vulnerability: that it may fail to strengthen, or may even weaken a society's own local companies. The Singapore government's strategy of providing multiple incentives to bring in MNCs with advanced technology has succeeded in attracting a set of activities that have upgraded the skills of Singaporean citizens and their standard of living. This strategy has helped to link Singapore's societal capabilities to those of some of the most dynamic and innovative technological enterprises in the world. But at the same time, there has been rather little spill over into the small and medium-sized Singaporean firms. Chiu, Ho and Lui observe that in spite of Singapore's successful move into more sophisticated levels of production, the fact remains that Singapore has very little home-grown high-technology manufacturing and remains very much dependent on the production technology of MNCs. Lim does note a few cases of dynamic local high-tech entrepreneurship, but there are distinctly fewer than in a country like Taiwan, where government has provided incentives for technological upgrading but has not relied heavily on bringing in MNCs in order to achieve this objective.

There are various explanations for the failure of major spin off's into Singaporean small and medium-sized enterprises; these tend to focus on lack of entrepreneurial traditions. One that seems particularly important for Hong Kong to consider, however, is the role of the MNCs themselves. As Hatch and Yamamura show, the Japanese MNCs bring along with them their own trusted Japanese suppliers, whom they (and the Japanese government) assist in relocation. The challenging forms of collaboration in new product development are undertaken with these familiar suppliers, while the relationships between the Japanese MNCs and local suppliers are more short-term and focused on products that involve little real upgrading. When people in Hong Kong debate whether or not to try to encourage more MNCs to locate in the territory, discussion usually focuses on the break with government's traditional non-interventionism. We think the more important issue, in fact, is whether MNCs would interact with Hong Kong's vibrant universe of entrepreneurial enterprises in ways that would upgrade their capabilities and products. The existence of these local companies constitutes the strongest asset in Hong Kong's industrial future, and the best strategy for upgrading will be one that promises strong links between the new technological and human inputs and the local companies. The Singapore experience, successful though it has been on many levels, does not suggest that such dynamic connections have played a significant role."

**(MIT: Made by Hong Kong pg 101 - 102)**

Of course as suggested earlier, Australia in the case of RHQ's, showed that it could put together a world class investment promotion strategy. In addition, the commercial in confidence information I have had access to over the years has demonstrated to me that there have been occasions where Australia quite correctly chose not to pay the investment incentives required to attract a high value added ETM investment because the costs quite clearly exceeded the benefits. While cost-benefit methodologies differ I have found that in considering the merits of supporting a particular investment there are usually 4 key factors I look for:

- The net foreign exchange earnings over the first five years of the projects operation relative to the dollar value of the incentive.
- The pay back period to Government in terms of the tax revenue generated compared to the dollar value of the incentive provided.
- The number of direct and indirect jobs created as well as any technology transfer that may be involved.
- The commitment of the project developer to build a local supply network and how this is likely to strengthen the forward-backward supply chain linkages within the region where the investment is made as well as outside the region.

Provided the investment promotion agencies don't design the investment incentive in a manner inconsistent with our WTO obligations (i.e. make sure not to mandate levels of local content or specify export targets, particularly in the performance contracts negotiated with the project developer) the actual provision of investment incentives is not really all that difficult. In addition, it's not that hard to be WTO consistent and still get the local content/exports you want to achieve. As most practitioners will tell you the "art of packaging" can by and large achieve what you want to achieve. And there are very capable people within DFAT who can determine whether the package is "green light" (WTO consistent), "amber" (potentially problematic) or "red light" (WTO inconsistent).

The real issue is whether Australia is to become a player or remain a spectator. Once this decision is made the task is designing the ETM investment promotion strategy and the supporting trade-industry policies, putting them in place in a consistent manner, and keeping them there for the next two decades. The options for doing this are discussed in Chapter Six of this report (pages 137 to 188) which looks at the key policies required for an integrated trade and industry development strategy that builds local Australian companies as well as attracting substantially higher levels of FDI in strategic ETM and related service industries. This discussion also encompasses the regional dimensions of such policies, particularly the need to focus on regions with high unemployment and weak or truncated supply chains. Both Chapter Six as well as Chapter Four deal briefly with the institutional issues and explain why after 15 years inside Austrade I don't see the MITI or Enterprise Ireland "one big agency" model as either necessary or desirable for the Australian situation. However, in concluding this chapter, a few brief remarks are required about Austrade's role in facilitating outwards investment.



