MNC views on investment in Australia

AEEMA

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ICT AUSTRALIA
A DIVISION OF AEEMA

Agenda

- Global changes
- Impact on Australia
- Factors in investment decisions
- Investment attraction
- What Australia can do

Global changes 1

- Last few years
  - Move to outsourcing of much manufacturing and some R&D by MNCs
    - Some of the what were the world's largest electronics manufacturers do relatively little manufacturing today
    - Far less influence over location decisions. More focused on price, quality, delivery, risk reduction
    - Preference to have a small number of relationships with outsourcers and key relationships near to R&D and product centres or big customers
  - Establishment of 5 – 10 large global outsourcers who have ICT MNCs for their customers
  - Shorter life cycles and rapid commoditisation of products

Global changes 2

- 2000 to 2002
  - Withdrawal of capital in key telecommunications markets
  - Dramatic change in orders for an industry that was experiencing high growth and preparing for more
    - Major carriers still announcing further spending cuts
  - Strategic moves to concentrate on key skill/product areas which would be high growth and profit in the future
    - Non-core assets sold or wound up
    - R&D focused on key areas – cut to match revenue (around 15% of revenue)
  - "Optimisation" of workforce to new revenue levels
    - Financial Times estimates that 880,000 jobs may have been between the beginning of 2001 and May 2002 – likely to be >1million
    - 2003 expected to be tough with ongoing restructuring of industry as a whole. Some companies better placed than others

Global changes 3

- Future
  - Industry will return to growth
    - Internet still growing fast, so investment will return
  - Future growth and investment decisions by MNCs likely to be very cautious with a lot more critical analysis than in the past few years
    - Possible preference to form alliances/partnerships and work with companies, rather than invest in or acquire companies
      - Reduces R&D costs and shares the risks
  - Greater location mobility but many legacy relationships
  - MNCs will continue to move R&D and manufacturing to Asia, particularly China but also India

Impact on Australia

- Little manufacturing of any large scale left in ICT sector
- No major presence by global outsourcers
- R&D facilities lost and those remaining shrinking
  - Sustainability of those remaining?
- Carrier capital spending fell more than in many overseas markets so impact likely to be greater than average in Australia – company specific
- Lack of monitoring / intervention by government
  - Some estimate that at least 15,000 jobs were lost in the ICT sector since the beginning of 2001 – job losses continuing
  - In the non-services part of the telecommunications sector, 30 to 50% of jobs were lost
- Venture capital harder to access, particularly for small projects

Factors in investment decisions

- First must get past decision makers location preference
- Barriers – Buy America Act
- Location comparison (priority and weighting is MNC dependent)
  - Total cost of the facility compared to other countries and local locations
    - This involves tax, wages, staff overhead costs, land, buildings, electricity etc
    - R&D tax concession in just (minor) one input to this for R&D facilities. Not all MNCs claim the concession
  - Where large customers want R&D conducted
  - Relative size of customers in the country – barely in top 50 in world
  - Availability of a skilled workforce – some local shortages
  - Local partnerships /alliances – exist in Australia?
  - Sustainability of investment, risk and ROI (see next chart)
  - Location of leading edge customers and users – Australia leads occasionally but risk adverse consumers/politics
  - Government inducements
  - General political/policy/geographic factors
  - Government leverage as a purchaser- poor for Australia

Sustainability, risk and ROI

- Small facilities are particularly vulnerable in any cut-backs
- New facilities have much higher risks than existing facilities
  - New untried staff, extra training, lack of experience with products, facility delays etc
- ROI is longer with new facilities and there are additional capital costs over existing facilities
- Australia needs to focus on segments with quick ROI and ongoing work
  - Applications development for Australian problems but with ability to globalize
  - Core technologies often are short-term with little ongoing work
    - North American model form big teams, reward well for the work, disband when completed

Investment attraction

- In response to the ICT industry changes other countries are continuing or expanding their programs
  - Singapore lost Flextronics to China/Taiwan but gained Solectron from Australia
    - Policy of external investment in key industries through several government funded vehicles
  - Canada has dramatically reduced business and employee taxes so that it is competitive and retains its skilled people
  - China is leveraging its low cost, increasingly skilled workforce, high concentration clusters and massive ICT buying power
    - Also developing its own future ICT MNCs
- Countries starting to put money into broadband infrastructure as combined industry development and social equity measure

What Australia can do

- Focus marketing of Australia on issues of concern to ICT investors and in area where Australia has an advantage
  - Needs to be factually based, not qualitative and must be ICT specific
  - NSW Competitiveness Report is good but not ICT specific
  - May have advantage in niche high value added electronics manufacturing
  - Have advantage with experience in applications development for demanding customers
- Benchmark Australia against its competitors, particularly on the total cost of activities
  - Identify and address areas where we are not internationally competitive
- Remove barriers – eg reconsider WTO AGP or progress free trade agreement with US – difficulties with this
- Skills
- Encourage local R&D by SMEs, Universities etc
- Encourage lead user projects or government be a lead user