INDISPENSABLE ECONOMIC PARTNERS

The US-Australia investment relationship
Australian banks, businesses and homes are heavily reliant on US capital.

More than 26% of foreign investment in Australia is from the United States.

More than 28% of Australia’s foreign investment is in the United States.

US-affiliated firms account for more than 335,000 jobs in Australia with an average annual salary of $115k+.

US companies and subsidiaries are based in New South Wales alone.

A$1B in research and development spent a year in Australia by US firms.

Australian firms in the United States made more than US $60,000,000,000,000 in sales in 2016 – more than six times as much as Australia exported to the United States.

The table below shows the investment into and from Australia, with the United States being the most significant investor.
The US-Australia Economic Relations Program examines investment flows between Australia and the United States, with a particular focus on the different forms of US-sourced investment in Australia, estimating their economic implications and the nation-building legacy of US investments in Australia.

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Australia’s largest international Chamber of Commerce with more than 700 corporate members, the American Chamber of Commerce in Australia was founded in 1961 with the objectives to promote the two-way flow of trade and investment between the United States and Australia.

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Executive summary

Australia enjoys a remarkable benefit from its multi-faceted, two-way investment relationship with the United States. And while Australia’s trade relationships, particularly in the region, are vital to continued growth and prosperity, the United States remains Australia’s indispensable economic partner.

Since its founding, Australia has been a heavy importer of foreign capital, and that foreign capital is a crucial driver of employment, economic growth, and also the ability to export. While much is often made of Australia’s important trading partners, including China, the important investment partners make those trading relationships possible by providing the necessary capital and know-how for production of goods and services.

The cumulative value of two-way investment between the United States and Australia is more than A$1.47 trillion, a number nearly as large as Australia’s gross domestic product. Representing more than a quarter of all foreign investment in Australia for many decades, the cumulative stock of US investment in Australia is currently A$860 billion: That’s A$345 billion more than the next largest investor, the United Kingdom, and approximately ten times more than Chinese investment in Australia.

These investments are indicative of a long and deep relationship between countries that have a great deal in common. Secure property rights and procedural fairness – backed by the rule of law and democratic political institutions in both countries – mean that Australia’s economic relationship with the US spans access to capital, technological diffusion, and knowledge transfers. In each of these domains, the United States is Australia’s most valuable partner.

This report addresses three fundamental components of the US-Australia investment relationship:

- its size, history, and economic impact
- the role of capital markets
- the “spillover effects” from foreign investment, namely skills and knowledge transfers

The report takes a multi-pronged approach, analysing this vital relationship from a variety of angles.
US-Australia investment overview

Having represented around a quarter of all foreign direct investment into Australia for over three decades, the stock of US direct investment in Australia is approximately A$195 billion – more than any other country. Critical sources of economic growth, these investments span all sectors of the economy and are responsible for more than 330,000 high-paying jobs with US-affiliated firms in Australia (average salary more than A$115,000), annual capital expenditures of more than A$10 billion, and annual research and development spending of more than A$1 billion since 2009.

The US-Australia investment relationship is not a one-way street. The United States has long been the single largest destination of outbound Australian investment, comprising more than a quarter of all Australian overseas investment. Total cumulative Australian investment in the United States is estimated to be A$617 billion – more than seven times the A$87 billion that Australia has invested in China. More than 1,200 Australian firms have operations in the United States, 12 per cent of which have assets or income greater than US$20 million. Australia exports to the United States in 2016 were worth US$9.5 billion – a fraction of the US$60.6 billion that Australian-owned companies made in sales in the same timeframe. Major Australian firms, ranging from biotechnology giants like ResMed to property giants like Westfield Corporation, see the United States not just as a market responsible for more than half of their global revenues, but as a springboard to the world.

The critical role of US capital markets

US capital markets, especially debt markets, are a vital source of capital for Australian companies, especially the banking and financial services sector. Australia’s “Big 4” banks (Commonwealth Bank of Australia, Westpac, National Australia Bank, and the Australia and New Zealand Banking Group) are the four largest ASX-listed companies and account for nearly one-quarter of the total market capitalisation of the ASX 300. The Big 4 banks are heavily reliant on wholesale funding from US debt markets. Due to foreign exchange markets, the depth of US debt markets, and interest rate derivatives, the United States is the overwhelming source of that funding.

This all has positive spillovers for the banks’ ability to lend to Australian individuals and businesses – the core building blocks of Australia’s economy. From the capital for infrastructure programs to major levels of investment for superannuation funds, US capital markets affect practically all Australians.

Business attitudes towards foreign investment

The knowledge and skills transfer that result from US investment into Australia are often described by business leaders in Australia as one of the most valuable benefits of the investment relationship with the United States because it enriches the competitiveness and level of skill available in the Australian economy.

To quantify this value, a survey was conducted of business leaders in Australia. Surprisingly, non-US owned firms operating in Australia generally valued US expertise less than Australian expertise. At the same time, however, there was very clear evidence that all the firms valued expertise, ownership, and an increased market share in the United States more than China or Japan.

Case studies

Thirteen businesses with strong ties between the United States and Australia were profiled in case studies interspersed throughout this report. The businesses profiled engage in diverse sectors including technology, manufacturing, retail, finance, infrastructure, oil and gas, pharmaceutical, and defence.

Focusing particularly on what compelled them to go overseas, US businesses place a high value on Australia’s low sovereign risk, highly skilled labour force, and strategic location. At the same time, however, businesses are increasingly worried about growing levels of instability in the investment climate. Some see Australia at risk of losing access to a globally mobile labour if business immigration regulations are made more difficult and housing affordability is not improved.

“The stock of US direct investment in Australia is approximately A$195 billion - more than any other country.”
Immigration
Continued transfer of highly skilled overseas personnel to US companies operating in Australia requires a continued commitment to skilled migration programs such as the subclass 457 visa, and a pathway to permanent residency.

Cities
Part of the attraction of Australia as a place to work is Australia’s “lifestyle dividend”. But housing affordability and infrastructure pressures in major cities like Sydney and Melbourne are challenging. Ensuring that Australian cities are great places to live and work is important to attract human as well as financial capital to Australia.

Investment certainty
Uncertainty deters investments of all kinds, and Australia’s energy and climate change policies over recent years have contributed significantly to general policy uncertainty. Long-term clarity must be provided.

Tax rate
Australia’s company tax rate has, in the space of 15 years, gone from being among the lowest in the OECD to one of the highest, at a time when reductions in rates by the United States and the United Kingdom are on the horizon. A more favourable tax rate would attract more financial capital to Australia.

Barriers to investment
Australia and the United States have in the past made preliminary plans to reduce barriers to more investment of smaller equity stakes, known as portfolio investment. These plans should be seen through and implemented.

Statistics
The data currently available from the Australian government, unlike other countries, lacks the granularity necessary to understand the nature of inward and outward foreign investment in Australia. More data is needed to better document and understand the magnitude and importance of Australia’s investment relationships.
Australia’s relationship with the United States runs deep and broad, and has for a long time. For this reason, it is easy for Australians – particularly younger generations of Australians – to underestimate the value of Australia’s relationship with the United States.

The depth and breadth of the relationship is evident in numerous domains: defence and national security, science and technology, the creative industries, and – the subject of this report – investment.

Economic historians classify Australia as resource-rich, but capital poor. Today’s Australia – technologically advanced, prosperous, and optimistic – is the legacy of generations of individuals, households, enterprises, and government. Insufficiently understood by many Australians is the American contribution to these nation-building investments.

These investments have taken several distinct forms, each of which are detailed in this report. Direct investments by American firms – typically via establishing and building Australian subsidiaries, developing plant and equipment, or acquiring a significant stake in an Australian enterprise – now totals $195 billion and has been growing by more than $10 billion a year in recent years; far and away the largest single source of foreign direct investment in Australia. US-sourced portfolio investment – typically, American institutional investors taking equity positions in Australian enterprises – was valued at $522 billion in 2016. In addition, the depth of US capital markets and the ease with which Australian financial institutions can access those markets play a vital “behind the scenes” role in the Australian economy, providing liquidity and security to the Australian financial services sector and their customers, Australian firms and households.
Case studies breathe life into the analysis. The stories of numerous American corporations and their investments in Australia – as well as Australian companies investing in the United States – highlight the long history and ongoing value of the investment relationship.

The United States Studies Centre is Australia’s leading institution for analysis of Australia’s relationship with the United States. On behalf of the Centre, its Board, staff and stakeholders, I’m proud that the Centre is shining a bright light on this vastly under-appreciated and under-valued dimension of the US-Australia relationship.

This study – supported by the American Chamber of Commerce in Australia – is a key part of a broader Centre effort to help Australians understand the depth and importance of Australia’s economic relationship with the United States.

As this report demonstrates, much is at stake in the Australian-US economic relationship. Good policy in this domain rests on an understanding of the basic facts of the matter. With this report, the Centre is making a valuable contribution to an issue of great national importance.

I thank Professor Richard Holden, the principal researcher on this project, for his leadership and labours on this project; Jared Mondschein, project manager and editor; Joseph Daley and Jaron Lee, who worked as research assistants on this project. In addition to their prodigious intellects and work ethic, Richard, Jared, Joseph and Jaron have invested passion, creativity and commitment, evident in the pages of this report.

I especially thank Niels Marquardt and the American Chamber of Commerce in Australia, who have been our partners on this project, helping the Centre fulfill its mission of educating Australians about our relationship with the United States. May this be the first of many such partnerships in the months and years ahead.

“The depth and breadth of the relationship is evident in numerous domains: defence and national security, science and technology, the creative industries, and – the subject of this report – investment.”
From the American Chamber of Commerce

Niels Marquardt
US Ambassador, ret’d
Chief Executive Officer
American Chamber of Commerce

The American Chamber of Commerce in Australia (AmCham) is proud to have been the catalyst for this important new body of research created by the United States Studies Centre on the unsurpassed but under-appreciated two-way investment relationship between the United States and Australia.

First and foremost, we would like to thank the AmCham member companies and other friends whose anonymous contributions generously funded this study, or who supported its launch in other useful ways. We could not have done it without this exceptional level of interest and support.

It was one year ago that the AmCham Board of Directors gave its “green light” to initiate this study. Our directors realised that the extraordinary dimensions of American investment into Australia were insufficiently understood by the Australian public. They decided that media, politicians, regulators, academics, and other key actors would all benefit greatly from a sharp, fresh insight into the critical role American foreign investment has played – and, hopefully, continue to play – in building a robust and prosperous Australian economy. And they were concerned about the policy implications of a continuing lack of awareness of this investment and its many impacts. Since there was no “off-the-shelf” independent reference to which one could turn, we wanted to create one for use by the broader community here.

As we undertook this project, we were grateful for the many leaders who already appreciated the critical importance of this relationship, and for their parallel efforts to call it out for what it is. Foreign Minister Julie Bishop, as a leading example, has repeatedly called the United States “Australia’s most important economic partner”. She has explicitly recognised the enormous contributions that American direct foreign investment has made to Australia’s unbroken quarter-century of uninterrupted economic growth – a new world record. This investment comes on top of a robust two-way trading relationship that has gone from strength to strength since the Australia-US Free Trade Agreement entered into force in 2005.

This study sets out in concrete terms, particularly through 13 fascinating case studies, why this investment matters so much. Consider job creation, which is clearly the top policy priority in both the United States and Australia. By our reckoning, roughly one in 12 jobs in Australia is directly or indirectly the result of US investment...
here. Just consider how many people you know personally who have great jobs working for the American companies profiled in this report, like Amazon, Amgen, Bechtel, Boeing, Cisco, Citi, Costco, Exxon Mobil, Google, GM Holden. Each of these investors has created thousands of jobs across Australia. In this respect, no other country's investment in Australia comes close.

It is also worth noting that the economic impact of Australian investment in the United States – the leading destination for Australian foreign investment – has also been significant. This study is as much about this story – about trailblazing Australian companies like Incitec Pivot, Austal, and Lendlease – that are among a swathe of Australians developing a sizeable presence in the American market.

This may be the “Asian Century”, but this study also helps unpack how American investment has made it possible for Australia to benefit so much from opportunities in Asia. It is safe to say that, without American investment, technology, talent, and equipment, Australia’s engagement with Asia would look significantly different. Indeed, this story is a “win-win-win” for America, Australia, and Asia, and it demonstrates why US investment has been such a powerful force in shaping foreign investment-dependent economies such as Australia’s.

So far, Australia is an unparalleled success story in terms of US investment. With only 23 million consumers, Australia nonetheless has become a major world market for many American companies – far in excess of what mere population and GDP would lead one to expect. Australia tends to welcome American products and innovation more readily than just about anywhere on earth – and the Australian people collaborate energetically in the trans-Pacific exchange of new ideas with America. Furthermore, it is a little-known fact that Australia is home to more US investment than any other country in the entire Asia-Pacific region.

Given these facts, the challenge faced by our directors was that public opinion in Australia largely fails to perceive most of this. For example, a recent United States Studies Centre (USSC) survey determined that Australians prefer increased trade with China more than increased trade with the United States. Our concern is that public perceptions such as these can lead to perverse impacts on policy formulation. Our main objective at AmCham is that Australia continues to offer the most welcoming possible climate for foreign investment so that the prosperity already created here can continue to grow, long into the future. The fact is that, in an increasingly globalised world, Australia competes for the marginal investment dollar with every other country. The policy settings in each country matter greatly in decisions on where to invest, and we strongly advocate having the most globally competitive settings here in Australia. Facilitating the entry of foreign capital, talent, and technology into the country is critical to this desired outcome.

AmCham is hopeful that this important work by the USSC will help galvanise a vigorous, fact-based discussion of how American investment has indeed contributed to building Australia, and how it can continue to do so. In voicing this hope, please also allow us to express our deep appreciation to USSC CEO Professor Simon Jackman, the USSC Board of Directors, lead researcher Professor Richard Holden, and the many colleagues who assisted them in this important endeavour. Their extraordinary interest, creativity, curiosity, expertise, and diligence have combined to produce what I hope you will agree is an extraordinary contribution to an important national discussion in Australia.
Meet the Smiths

Take this hypothetical Australian family living south of Adelaide. Let’s call them the Smiths.

Taking advantage of his naval experience, John works as a project manager at the ship-building company, Austal, an Australian firm with most of its employees and business in the United States. His partner, Jane, commutes down to Millicent to work as a manager at Kimberly-Clark, the largest single employer in the region. John and Jane live with their 12-year-old daughter, Juliet, in a home that was financed by an Australian bank. With a quarter of funding for Australian banks being foreign, the bank is financed with US capital secured through Citi.

The US and Australian economies are so deeply intertwined that the connections can go practically unnoticed. A typical Australian household engages with US products or companies in almost every aspect of their life.
Case study overview

Interspersed throughout this report are 13 case studies of businesses with strong ties to both the United States and Australia. These are the result of discussion with a broad array of business leaders throughout Australia.

The 13 businesses profiled engage in sectors including technology, manufacturing, retail, finance, infrastructure, oil and gas, pharmaceutical, and defence. They also have markedly unique histories in Australia. GM Holden, for example, is one Australia’s oldest and most storied foreign investments and is maintaining a world-class design capability in Australia while ceasing its local auto manufacturing, while Amazon Web Services, having begun operations in Sydney less than a decade ago, is now growing almost exponentially.

Ten of the 13 businesses profiled are US businesses in Australia, with the remaining being Australian businesses with strong US ties. For each one, we specifically asked what led to their investment overseas, what strengths the US and Australian business climates provide them and also what they hope will improve in Australia’s business climate.

Here in Australia, some of the issues that the businesses raised, particularly in regards to challenges, we summarise without attribution. Although economic data and survey results can be important indicators of the quantitative value of foreign investment, the insights gleaned from these discussions helped us to form some of the most valuable conclusions of our research.

A few key themes on what attract US companies to Australia include:

- **The quality of life** is one of the best in the world. This sees Australia not only attract highly skilled and internationally mobile individuals, but it is also a compelling place for them to settle. Families are drawn to Australia’s **good healthcare system, strong schools, low crime rates and unblemished physical environment**. These “lifestyle dividends” have been enormous for Australia.

- It is often underappreciated just how much Australia has benefited from its **good governance**. In a region beset with tensions and instability, Australia is a safe and inviting country for investment with strong democratic institutions and traditions, allowing for little sovereign risk. Whether it be the development of classified military technology or expensive research initiatives, companies trust that Australia is a **safe place for their most sensitive of operations**.

- The remote nature of Australia has benefited Australia in a number of ways. It has fostered an environment in which Australians love to travel and are eager to see the world. Companies in Australia know that they can draw on a **talent pool with international experience** and appetites to travel more. It has also led to an innovative culture where Australians create and supplement local solutions to various challenges without much outside help.
Australia’s considerable difference from the United States is also, ironically, conducive to close collaboration with US firms. It is not only a great launch pad for US firms seeking to enter the Asian market, but it is also located in a time zone that allows firms to maintain business operating hours outside of typical US and European business hours.

Australia’s world-leading universities supply companies with a high-skilled workforce. They also, however, are collaborative partners to a diverse array of companies in Australia. Countless innovations and discoveries in Australia have originated from public-private research and development collaborations with Australia’s universities.

The Australian population is more tech-savvy than most developed countries, having embraced the digital world faster than most. Foreign companies often introduce cutting-edge technology in Australia ahead of other markets because it is a developed yet still secluded market, so the impact of failure is less.

Some of the Australian challenges that business articulated, both present and future, included:

- As much as the mining boom helped Australia safely navigate through the financial crisis, Australia’s economic future lies in services-centric investments, not capital-intensive investments like mining. This means high skills jobs, not itinerant low-skilled labour.
  
  **Australian labour, even unskilled labour, is not cheap** – particularly compared to the United States. Many businesses with slim profit margins are working to decrease their reliance on this expensive commodity.

- A more services-centric investment strategy, most notably in terms of attracting and maintaining high-skilled labour from around the world, starts with a constructive immigration policy. The current reforms to the 457 visa stand out as being particularly unfavourable to businesses in Australia being able to attract the high level of talent necessary to stay globally competitive.

- A basic tenet of the economic theory of investment is that, all else equal, greater uncertainty makes investment less attractive. From the hurried implementation of new bank taxes to dramatic reversals in energy policy, there are increasing levels of instability in Australia’s investment climate. Further instability can have long-term economic consequences.

- Australia’s “lifestyle dividends”, which have paid so handsomely for Australia by attracting such a significant amount of high-skilled labour, are becoming increasingly difficult to maintain. Exorbitant housing prices in Sydney and Melbourne – the two cities that attract the majority of foreign talent – are making it increasingly difficult to maintain talent. Furthermore, the urban environment – ranging from infrastructure and public transportation, to school systems – will face increasing pressure given projected population increases.

- Australia’s corporate tax rate is now one of the highest in the developed world. Companies will not be inclined to stay in Australia if other developed nations go ahead with their plans to lower their corporate tax rate even further.

- Australian businesses benefit from the government’s Trade and Investment Commission (Austrade) being active and engaged in helping Australian businesses abroad. Ultimately, foreign businesses in Australia must deal with local governments that are sometimes not as business-friendly as governments elsewhere, including the United States. Austrade’s many efforts to take local Australian government delegations on tours of more business-friendly environments should continue and be expanded, if possible.

“Although economic data and survey results can be important indicators of the quantitative value of foreign investment, the insights gleaned from these discussions helped us to form some of the most valuable conclusions of our research.”
Cisco

Founded in 1984 by two Stanford University computer scientists trying to connect different computer systems, Cisco is a Silicon Valley-based technology company that connects, secures, services, and produces a wide array of ubiquitous technologies ranging from office phones with integrated video collaboration, to internet moderns and machine learning networks, to energy management software. From the broadest perspective, Cisco specialises in technology networks and communications with 85 per cent of the world’s internet traffic running on Cisco technology.

Today, Cisco earns more than A$60 billion in revenue a year, with around 70,000 employees working in more than 165 countries and 480 sites doing business across the world.

With its estimated 1,000 Australian-based employees, Australia is Cisco’s seventh largest revenue source, according to its director of corporate and government affairs, Tim Fawcett. Australia is considered an early adopter of technology. When Cisco entered the cloud computing sector in Australia, it rose to first in market share faster than anywhere else, Fawcett said. And when Cisco entered the Internet of Things arena, it similarly rose to first in market share faster than anywhere else in the world – faster than the United States, Japan, or the United Kingdom, according to Fawcett.

“There is no doubt that the Australian economy is embracing digitisation faster than anywhere else in the world,” Fawcett said.

In many ways more remarkable, however, is the considerable amount and diverse ways in which Cisco has invested in Australia. The northern Sydney suburb of St Leonards is home to one of Cisco’s Global Technical Assistance Centres (TAC) and is the Asia-Pacific regional headquarters for customer solutions support. This is one, in a network of TACs, in a “follow-the-sun” global model in which Cisco provides 24-hour customer support. The Sydney team has some 400 of Cisco’s most experienced systems engineers, who provide the highest quality support to its customers.

While many technology companies seek to transform certain businesses, Cisco investments in Australia clearly demonstrate how it is working to also transform cities and governments around the world.

In partnering with industry, government and local universities, Cisco has established innovation centres in Perth and Sydney. The innovation centres provide access to technology expertise, development equipment, investment funds, and other key innovation ingredients to start-ups, industry experts, developers and researchers in an open environment of collaboration. The innovation centres are currently focused on developing new solutions through the Internet-of-Things technology to agriculture, transport, and natural resources sectors. This follows Cisco’s already established work in Adelaide as a Smart City, with connected street lights, parking, and public Wi-Fi.

Cisco has also invested in and partnered with promising Australian technology firms. One such example is the Adelaide-based Cohda Wireless, which specialises in connections between self-driving cars. Cohda and Cisco’s Internet of Things business unit joined forces to explore the vehicle component of its Smart Cities program.

In 2015, Cisco announced a new initiative known as AUSTEM2020. In trying to address the ever-increasing shortage of students with strong STEM (science, technology, engineering, maths) foundations, Cisco launched two components to support and increase STEM education in Australia. Firstly, it invested A$31 million over five years in Australia’s education system and committed to training a minimum of 20,000 students per year by 2020 in STEM education. Secondly, Cisco pledge to commit 20 per cent of their staff to do 20 hours of mentoring per year by 2020 – which it estimates costs around $10 million.

According to Fawcett, Australia has a world-class social safety net and a highly tech-savvy population, giving it “wonderful economic platforms” to transition to a digital economy. Cisco, Fawcett said, sees itself as a key facilitator for that transition.
GM Holden

Few companies have as long a history of US investment in Australia as General Motors and Holden. Founded in 1856 as a saddle manufacturer, Holden eventually moved into automobile bodies and began selling General Motors (GM) cars in the 1920s before being formally merged with GM in 1931.

From protectionist tariffs that resulted in GM Holden producing the first Australian-made car in 1948 to political backlash towards industry assistance, the public attitudes towards and government treatment of GM Holden from the early 20th century through World War II and into the 21st century, in many ways trace the broader Australian attitude toward foreign investment.

This year, 2017, will be a momentous one in the iconic carmaker’s storied Australian history, as it marks the final year in which Holden cars will be manufactured domestically. While successive Australian governments have helped facilitate Australia’s evolution into a skills-based economy – including reductions to government subsidies for auto manufacturing – it has nonetheless been difficult for many Australians to see such a quintessentially Australian brand cease in-country manufacturing.

The final outcome of what remains of GM Holden in Australia today, however, is just one example of the broader shifts in Australia as it has become a high-skills based economy. Lower-skilled manufacturing has left but GM Holden’s higher-skilled design and engineering teams have remained in Victoria and made significant contributions to the global GM brand.

GM’s decision to continue investment in its design and engineering team of approximately 350 people was not done for nostalgic purposes. On the contrary, GM consciously decided to take advantage of the Australian teams’ long history and extensive experience by integrating its design and engineering teams as central components of the global GM company. As one of the few locations in the world once capable of designing a vehicle on a piece of paper and putting it into production all in one country, the design and engineering teams are some of the most experienced and mature in all of GM.

The Port Melbourne-based GM Holden design team has already won awards for their work, including the Concept Car of the Year at the 2007 Detroit Auto Show for Holden’s EFIJY, the team’s modern update of the classic Australian FJ Holden. Having already designed Holden concept cars for more than half a century, it was an easy transition to design concept cars for GM, which it has now been doing for more than ten years. The GM Holden design team’s work on the Buick Avenir – a brand and model not even sold in Australia – won Best Concept Vehicle at the 2015 Detroit Auto Show.

Despite Australia’s small population, it can “punch well above its weight” in auto design, GM Holden Design Director Richard Ferlazzo said. Only GM’s team in Melbourne and the global headquarters in Detroit are capable of designing and building a concept car completely in-house, Ferlazzo said.

Australian auto designers have benefited from the unique aspects of well-established Australian car culture, including the fact that Australia has one of the most diverse car markets in the world, with around 60 brands on Australian streets compared to around 40 in the United States and other major markets. That exposure to a diversity of brands, in addition to the cosmopolitan car culture of Australia, is undoubtedly an intangible advantage.

The engineering team, which works closely with the design team, has also made valuable contributions to GM’s diverse brands. The Lang Proving Ground roads and test facilities located outside of Melbourne, where every Holden has been tested since 1958, are now being used by GM’s engineering team to test the powertrain components and emissions of Holden vehicles sold in Australia, in addition to Chevys and Cadillacs sold around the world.

In addition to the experience gained from decades of designing, building, and manufacturing vehicles in one country, GM Australia’s Head of Engineering Brett Vivian believes that Australia’s high quality universities, which not only produce strong engineering students but have also collaborated with GM’s local and global engineering team, has made engineering in Australia an attractive operation.

Car manufacturers are clearly facing leaner days than in the past, but the GM Australia team’s unique experience designing, engineering, and manufacturing Holden cars have made the remaining design and engineering teams valued tools to the entire GM company. While no longer one of the most powerful brands in the country, GM Holden has become a remarkable example of a legacy company evolving with the times and taking advantage of Australia’s core competencies.
The largest publicly-traded international oil and gas company in the world, ExxonMobil has made more than $20 billion in cumulative investments in Australia. ExxonMobil has historical roots in Australia through its predecessor company, Vacuum Oil, which opened its first branch in Queen Street, Melbourne in February 1895. The company was pivotal in the discovery of oil and gas in Bass Strait, with the Gippsland Basin joint venture completing its first discovery in February 1965. Since then, offshore facilities have supported production of 4 billion barrels of oil and 8 trillion cubic feet of gas.

Although its primary role has been to extract natural resources, a spinoff benefit of the company’s involvement in Australia has been local skill development. Before the Bass Strait projects, Australian companies such as BHP did not have the oil and gas skills to perform modern petroleum resource projects. ExxonMobil’s work in Australia has contributed to “enormous growth in specialised skills,” ExxonMobil Public and Government Affairs Manager Andrew Murphy said. A proliferation of Australians equipped with skills gained from working on ExxonMobil’s Australian sites are now travelling around the world working on other oil and gas projects, Murphy said.

The two-way knowledge transfer between the university sector and geoscience and petroleum engineering has been particularly marked. Engineering and geology programs at several universities involve significant interaction. As one example, at the University of New South Wales, the School of Petroleum Engineering was established in 1985 as an independent entity dedicated to the field, only 20 years after the discovery of Bass Strait oil.

Two clear policy challenges are present. The first is around the Australian industrial relations system, which has been partly responsible for cost blowouts on certain projects – and labour costs and productivity are especially important toward the end of the life of a project. Changes to the workplace relations system could make Australia more attractive for future investment.

The second is the importance of a stable fiscal regime. ExxonMobil has paid around $12 billion in Petroleum Resource Rent Tax (PRRT) over the past two decades in nominal terms. Under this scheme Australia has remained a favourable investment destination for ExxonMobil with two generations of developments in the Bass Strait, as well as the significant investment in the Gorgon Project.

With this in mind, the government needs to be cautious about making significant changes to a regime that has been proven to be effective over the long term, but is experiencing a short-term revenue reduction due to recent declines in resource price and a lag between the start-up of projects and commencement of PRRT payments that is inherent in the design of PRRT.

Policy certainty drives lower risk premia and more investment according to the company.
As Australia’s largest investor and the largest destination of Australian investment, no single country plays a larger role in Australia’s economy than the United States. The cumulative value of two-way investment between the United States and Australia is more than A$1.47 trillion, a number nearly as large as Australia’s gross domestic product. The United States alone has over A$860 billion invested, $345 billion more than the United Kingdom, the second largest investor in Australia. The United States has had substantial investments in Australia since the early 20th century, yet the amount of investment has grown sizably over the past 15 years, particularly since the financial crisis. Today, the total US investment in Australia has more than tripled since 2002. While China has rapidly increased its levels of investment in Australia, it remains only the seventh largest investor in Australia, with total investments amounting to one-tenth the magnitude of US investment. Even in terms of outbound investment, Australia’s investment in the United States is more than seven times greater than its investment in China.

The state of New South Wales alone is estimated to have more than 1,500 US subsidiaries operating within it. There is no doubt that proportionally, the US-Australian investment relationship has a larger impact on Australia than it does on the United States. Indeed, Australia is only the seventh largest destination of US Foreign Direct Investment (FDI). Nonetheless, Australia is the recipient of more US FDI than all of South America, Africa, or the Middle East, receiving well over twice the amount that China does.

The US-Australia investment relationship

What does this investment in Australia ultimately look like? It is thousands of US subsidiaries or US facilities located throughout Australia, with more than 1,000 US companies earning or valued at more than US$25 million, according to US government statistics.1
History

The US-Australian economic relationship dates as far back as 1793, when the American trading ship *Hope* delivered 7,500 gallons of rum to Sydney.\(^5\) It was not until the turn of the 20th century, however, that the economic relationship began to truly flourish. The earliest estimates of US investment in Australia date back to 1896, with the establishment of the Ammonia Company of Australia in New South Wales by the US-owned National Ammonia Company.\(^6\) Less than ten years later in 1908, upstate New York-based Kodak began to develop film in Australia through a joint venture with a Melbourne company.\(^7\) By the 1930s, major US multinational manufacturers such as Kellogg’s, Ford, General Motors, Heinz, and Coca-Cola had all set up Australian operations.\(^8\)

The 1940s, particularly the economic activity engendered by World War II, proved to be a major turning point in the US-Australia economic relationship. According to David Uren’s 2015 book on foreign investment in Australia:

“…the Australian economy was swept into the task of supplying the US war machine in the Pacific. The US Lend-Lease program delivered the latest US plant and equipment to upgrade Australia’s manufacturing capability for delivering everything from bomber aircraft to radios, steel, ships, clothing and tinned chilli con carne. Production of canned vegetables went from 4,000 tons at the beginning of the war to 60,000 tons by the end … At the end of the war, a deal was cut under which Australia would pay the United States $27 million (about 9 million pounds) for the Lend-Lease equipment it was leaving behind. The war left Australia with a much larger and more sophisticated manufacturing base than it had five years before, and it also deepened links between Australia and the United States.”\(^9\)

By the 1950s, US foreign investment around the world had grown, nearly tripling from $11.7 billion to $31.9 billion by the end of the decade, but it would grow fastest in Australia.\(^10\) The rapid increase in post-war foreign investment not only benefited the capital-thirsty Australian economy, but also “provided access to much of the technical knowledge and managerial skill developed in the more industrially advanced countries of Europe and North America”, according to a 1964 study of US investment in Australian industry by Don Brash, the future governor of the Reserve Bank of New Zealand.\(^11\) The Australian Treasury Department in 1958 found that foreign direct investment, much of it being American, “helped us invaluable during recent years by the support it has given to our balance of payments, by the addition it has to investible funds within Australia and by the accompanying flow of new techniques and know-how.”\(^12\)

According to Brash, the combination of foreign capital and foreign skills transfers was “a vital force impelling growth throughout the [Australian] economy”.\(^13\)
Led by the United States, foreign ownership of Australia’s oil refining, car, and pharmaceutical industries was estimated to be more than 90 per cent by the 1960s. By this point, Brash opined that “most Australians would have difficulty naming a breakfast food, a cosmetic, or a toilet article not produced by the local subsidiary of some American company”. As much as the Australian Treasury and economists may have seen the value of foreign investment, its rapid growth coincided with increased popular anxiety over the magnitude of foreign ownership and growing fear of foreign powers.

Foreign direct investment (FDI) had grown so rapidly that “both nationalist and state developmentalist ideas gradually became more influential”, eventually leading Australia to turn “away from a long-established ‘open door’ policy towards FDI”.¹⁴ This period, which lasted well into the 1980s, would lead to the creation of the Foreign Investment Review Board (FIRB), advising the federal treasurer on foreign investment into Australia.

A target of controversy, FIRB has continued to play a critical yet often-maligned role in helping the government regulate foreign investment – although as FIRB is an advisory body, broad discretion ultimately remains with the treasurer. The 2005 US-Australian Free Trade Agreement, which substantially increased the FIRB screening threshold for US investments into areas deemed to not have national security implications, has helped to lower that barrier to US investment. Interestingly, beyond just US investment, one economist suggests that the free trade agreement led to “an increased stock of FDI from all sources due to the wider liberalisation in Australia’s foreign investment rules” after it went into force.¹⁵ Nonetheless, it was not until the 1980s, when foreign investment regulations were relaxed, that US investment into Australia began to look as it does today. The value of US investment since that time (figure 1) has dramatically increased in value, but this coincided with a similarly dramatic growth of all investment into Australia. Accordingly, in proportional terms, the United States has accounted for around a quarter of all inbound investment in Australia since the 1980s.¹⁶
Foreign investment generally takes four different forms: direct investment, portfolio investment, financial derivatives, and other investments. Foreign direct investment (FDI), defined as foreign ownership of 10 per cent or more of a company, makes up 25 per cent of total foreign investment in Australia. Foreign portfolio investment, generally defined as foreign ownership of less than 10 per cent of a company, makes up 52 per cent of all foreign investment in Australia. Seven per cent of foreign investment in Australia comprises financial derivatives, largely foreign currency hedging, while the remaining 16 per cent is defined as other investments, a residual category that covers any items, such as trade credits or loans, that are not defined elsewhere.

What does it mean to invest in Australia?

Foreign investment in Australia in 2016 (A$ billion)

Fig. 2

“In proportional terms, the United States has accounted for around a quarter of all inbound investment in Australia since the 1980s.”
Amazon Web Services (AWS), a division of Amazon.com, is a cloud computing business that provides on-demand virtual computing and hosting platforms for businesses, governments and individuals. Launched by Amazon.com in March 2006, AWS has grown quickly and is now accessed by around a third of all internet users and forecast to earn more than US$13 billion in revenue in 2017 – more than half of Amazon’s global profits.\(^1\)

AWS’s virtual computers act, from a user perspective, just like local computers except that they are accessed and controlled over the internet instead of on a physical server space onsite. From Netflix and Airbnb to data-mining economists, AWS allows users to have dramatically more computing power and server capabilities in a cloud format at a fraction of the price of traditional onsite facilities. It’s paid for on a “pay-as-you-go” basis rather than having to guess and buy all IT capacity upfront for the forward few years.

These services are provided through a number of so-called Availability Zones, or “server farms” located in 16 regions around the world, including the Australian region based in Sydney, which was the ninth region to launch. The Australian operation provides “consultative technical support” which is, in many ways, closer to business advice than traditional troubleshoot-type technical support.

Like any business decision, the reasons AWS chose to open up a regional hub in Sydney are multifaceted, but they include the importance of geographic proximity in terms of latency (the time it takes for a cloud-based service to respond to a request by a user)\(^1\) and that there is an important and growing Australian user base for cloud computing services. Sydney’s time zone also gives it a distinct strategic advantage: AWS employees in Sydney support customers all around the world due to the company subscribing to a “follow-the-sun” model for support, meaning top-level support is available to its customers 24 hours a day.

Most notably, however, AWS believes that the best locations attract the best employees, which in turn help attract and retain the best customers. “We put our offices in the best places to attract the best talent,” Australia-New Zealand Public Sector Country Manager Andrew Phillips said. Given its desirable and family-friendly environment as well as reputation for early adoption of new technology, AWS found Australia to be the sort of location that encourages this valuable chain reaction. The roughly 1000 well-remunerated AWS employees in Australia are clearly a benefit to Australia – and the service itself has helped local companies, like software company Atlassian and online marketplace Freelancer.com – globalise more quickly.

The multiplier effect of the AWS platform itself, however, has arguably created the greatest benefit to Australia. The AWS presence in Australia has allowed the company to market their services to local organisations more effectively than from overseas on a “fly-in-fly-out” basis. This, in turn, has provided demand for a larger local AWS presence. With this expanded footprint, AWS has been able to do more collaborative local development of its innovative services.

“We can’t predict how your customers are going to use your products,” Phillips said, while noting that “over 90 per cent of ideas for new features come from customers”. This type of symbiotic product tailoring has created significant local demand for IT professionals certified to operate systems that use the AWS platform.

There are currently 5,500 open job requests in Australia requiring AWS certification while it is predicted that a further 50,000 such certified users will be needed in the coming years. This is an essentially new source of medium-skilled, high-wage jobs but, just as importantly, the very presence of these jobs strengthens the platform, creating new benefits to Australian corporate and government users of AWS, as well as leading to further employment opportunities for Australian IT professionals – including at AWS itself.

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Given its more enduring nature, FDI is often seen as being the most valuable form of foreign investment. Having been the largest single foreign direct investor into Australia for many years, the United States now accounts for nearly a quarter of all cumulative inbound FDI, totaling A$195 billion (figure 3). From aerospace to agriculture, US direct investment in Australia takes place in practically every sector of the country’s economy.

According to US government data, the top sectors attracting US FDI into Australia are holding companies, mining, finance and insurance, and manufacturing. The outsized role of holding companies in US FDI into Australia is actually consistent with the global trend of increasing amounts of US FDI being in the form of holding companies. Tasked with holding securities or assets of other companies, many organisations engage in the use of holding companies for overseas investment for tax considerations.

Source: US BEA, “Balance of payments and direct investment position data; U.S. direct investment position abroad”
What does Australian foreign investment look like?

Australian outward foreign investment (A$ billions)
Fig. 5

Australian outward foreign direct investment (A$ billions)
Fig. 6

Source: ABS Series 53520

Source: ABS Series 53520
The United States has been the largest destination of Australian investment for many years. Making up more than 28 per cent of all Australian overseas investment, total Australian investment in the United States is valued at A$617 billion, more than seven times the A$87 billion that Australia has invested in China (figure 6). Major Australian firms, ranging from biotechnology giants like CSL to innovative tech firms such as Atlassian, see the United States not just as a large market but as a springboard to the world. The amount of Australian investment in the United States continues to grow significantly, having already doubled its total investment amount since 2005.

With significantly lower labour costs than Australia, manufacturing makes up half of Australia’s direct investment in the United States. This report’s case studies of Australian firms with significant operations in the United States, like Austal and Incitec Pivot, further detail the incentives for investing in US manufacturing.

Australian exports to the United States in 2016 were worth US$9.5 billion – a fraction of the US$60.6 billion that Australian-owned companies made in sales in the same timeframe (figure 8).

**Types of Australian direct investment into the United States**

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<th>Type of Investment</th>
<th>Percentage</th>
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<td>Manufacturing</td>
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<td>Wholesale trade</td>
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<td>Depository institutions</td>
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<tr>
<td>Finance and insurance</td>
<td>19%</td>
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<tr>
<td>Real estate, rental and leasing</td>
<td>5%</td>
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</table>


**Australian exports to the United States versus sales by Australian companies in the United States ($US billions)**

Source: United States BEA, Data on activities of multinational enterprises - foreign direct investment in the US, majority-owned bank and nonbank U.S. affiliates, total sales” and US Census Bureau “Trade in Goods with Australia” [25]
What does this investment mean for Australians?

This substantial economic relationship ultimately results not only in more jobs for Australians but also higher quality jobs. The most recent US government data estimates that US-affiliated firms account for 335,400 jobs in Australia, with wages totaling A$38.8 billion – meaning that, on average, an Australian employee of a US-affiliated firm earns more than A$115,000 a year.

Although the impact of foreign investment remains intangible by many measures, no statistic demonstrates the deep value of US investment in Australia better than the A$1 billion and more that US companies in Australia have spent annually on research and development (R&D) since 2009 (figure 11). To put that into perspective, US companies in Australia spent more than A$1.5 billion on R&D in 2014, while the Australian government pledged A$9.5 billion for R&D in 2013-2014.

Conclusion

Trade, the provision of goods or services for money, is relatively simple in both theory and practice. Investment on the other hand comes in multiple forms and often requires understanding how investments and markets evolve over time. While trading relationships can fluctuate rapidly from year to year, bilateral investment relationships are based on the belief that the future will be more prosperous than the present. The sizable investment relationship between the United States and Australia is a clear vote of confidence in the strength and security of both countries, of their political and legal institutions, and the US-Australia relationship more generally.
Austal is a Perth-based shipbuilder and defence contractor with shipyards in Australia, the United States, and the Philippines. Founded in 1988, Austal today has designed and built more than 260 defence and commercial vessels for more than 100 customers in 50 countries around the world, with 2016 revenue of A$1.3 billion.

While most shipbuilders at the time of its founding were focused on steel and fibreglass hulls, Austal consciously chose to design and build aluminium vessels. It has only recently added steel as an option for military vessels. Like so many other instances of Australian expertise and ingenuity being developed independently and often oblivious of the resources present in other nations, it soon became clear that Austal’s extensive abilities in manufacturing aluminium vessels at a large scale was unique and unmatched on a global scale. This included the United States, home of the world’s largest naval fleet, where there simply weren’t any large yards capable of Austal’s style of shipbuilding.

Austal’s international expansion faced a predicament: the US military seemed to have a need for Austal’s ships due to an increase in littoral warfare but US law and customs prevented Austal from being able to manufacture US military warships in Australia. Given these challenges, Austal Founder and Chairman John Rothwell made the ambitious decision to directly enter the US market in 1999. In less than 20 years, Austal has invested more than $400 million dollars in allowing their US shipyard to become one of the largest employers in Mobile, Alabama, with more than 4,000 employees.

The Mobile shipyard now serves as the centre of manufacturing for two high-speed aluminium ship classes for the US Navy: the Littoral Combat Ship (LCS) and Expeditionary Fast Transport (EPF) programs. The LCS is uniquely capable of anti-submarine warfare, mine countermeasures, and surface warfare. The EPF allows for the rapid deployment of troops and cargo with limited port infrastructure. The fulfilment of these two projects has led to nearly 85 per cent of Austal’s annual revenue coming from the United States. A foreign-owned company operating a major manufacturing hub in the United States is a difficult and rare enough task unto itself, but to focus solely on sales to the US military – infamous for its byzantine procurement process – is another obstacle altogether. Rothwell attributes his US success to a number of reasons that acutely demonstrate the benefits of both the Australian business environment and close military and cultural ties between the United States and Australia. Without hesitation, Rothwell says, the deep and broad-based relationship between the two young nations was a major factor in Austal’s US success. “I would be surprised if there were too many companies who could achieve [what Austal has],” Rothwell said.

Rothwell found that entering the US military market was made easier by Austal’s Australian background. While doing the initial “rounds of the Pentagon and naval establishment” to gauge their interest in Austal warships, Rothwell would regularly come across senior naval personnel who had had a great Australian experience in their military travels. The fact that Australians in the United States are well-liked, culturally aligned, and operate similarly helped Austal a lot, he said.

The strength of the military relationship and high levels of trust between the United States and Australia cannot be overemphasised in facilitating an agreement in which Austal, a foreign-owned company with commercial but not military success in Australia, bought US facilities for building critical US military warships. The trust relationship also goes both ways: due to the security-sensitive nature of Austal’s military work in the United States, Austal’s Australian team can only retain a minority stake in the board of Austal’s US outfit. Austal’s executive team are effectively forced to trust that a corporate board in charge of overseeing the overwhelming majority of their revenue will act in the Australian firm’s best interests.

While Austal’s military procurement work involves a limited number of countries, the fact that Austal has supplied “the most powerful navy in the world” is certainly noticed and has helped international commercial and military sales, Rothwell said.
Bechtel is one of the world’s largest engineering, construction, and project management companies. In its nearly 120 years in operation it has completed more than 25,000 projects in 160 countries, and had revenue in 2015 of US$32.3 billion.

Bechtel’s presence in Australia dates to 1954, when it provided engineering services for a pipeline pump house. Since then, Bechtel has been involved in a large number of significant projects in Australia, ranging from the mining sector and LNG installations to power stations and telecommunications infrastructure.

A number of these projects have been the first of their kind in Australia, such as the Curtis Island LNG facility off the coast of Queensland, near the city of Gladstone. This A$11 billion project involved providing a full array of engineering and construction services. “It passed on a range of skills to the local contracting community,” said Bechtel’s regional president Shaun Kenny, “including leading safety and quality standards”.

The local employment and contracting impact was significant. The project involved more than A$1.5 billion in wages to long-term Gladstone residents, hired and trained 436 apprentices, employed more than 500 Aboriginal and Torres Strait Islanders, and awarded more than 40 subcontracts totaling A$350 million to local businesses.

Remarkably, the company sees the possibility of further LNG expansion, as well as further work in the mining sector. As iron ore and other mining continues, “tougher deposits are going to have to be mined”, Kenny said. This will present engineering challenges that Bechtel sees as opportunities.

Bechtel’s “on-the-ground” presence has allowed it to move beyond natural resources into a number of other areas. It is now involved in the Australian defence and infrastructure sectors. This includes the remediation of old defence bases to form part of urban renewal and housing expansion projects – particularly around some of the very expensive Australian cities, such as Sydney.

In Asia, the company is also heavily involved in the building of data centres which are driving the cloud computing revolution mentioned in this report’s discussion of Amazon Web Services. Because of the importance of minimising transmission costs, local data centres are vital, but clients demand world-leading technology.

Although more of Bechtel’s work is being done digitally, Kenny said Bechtel wanted “to have people here and not rely on bringing expats in and out of Australia”. Australia’s strong rule of law, education system, natural resources, and “emerging technology base” are all strong advantages of Australia that make investing here attractive. Bechtel has also benefited from the wanderlust nature of the Australian workforce – not only willing to go overseas but eager. “You’ll find Australians all over the world – remoteness breeds that,” Kenny said.

“It’s good for the company to be strategically positioned here, and we have 70 years of history in Australia. We definitely don’t want to pull out; it takes time to establish your reputation."

The Bechtel experience highlights the knowledge spillovers and community ties – especially in regional centres – that overseas engineering and project management investment brings. It also underlines the fact that investment in Australia is a “binary” decision for many companies – they are either in or out. Relatively small shifts in the attractiveness of the investment environment may have little observable effect on investment, unless a sufficient number of negatives add up to a company moving out of Australia completely.

“Private held

**Headquarters:**
San Francisco, California

**Significant Figure:**
400+ apprentices hired on the Curtis Island project in Queensland

**Why Australia?**
- High-skills workforce
- Internationally-mobile workforce
- US-Australia military relationship

“You’ll find Australians all over the world – remoteness breeds that”
The importance of US capital markets

Australia is a nation that relies heavily on international capital markets. At a very basic level, Australia needs a continual inbound flow of capital in order for the economy to continue to grow. This is true in both debt and equity markets. Debt matures and must be repaid or rolled over, meaning that the funding needs of the nation are ongoing and significant drivers of economic growth.

The increase in both household and government debt, particularly in recent years, makes this funding necessity even more pressing.

In debt and equity markets, and for the vast majority of financial products, US capital markets are the deepest, most liquid, and most reliable for Australian entities (public or private) with funding needs. In 2016, corporate debt issuance in the United States totalled US$1.5 trillion, with total outstanding issuances of US$8.5 trillion. To put that in context, the entire GDP of Australia is around US$1.4 trillion.

US debt markets are the mainstay of global debt markets. As one industry participant put it: "they are always open; there's always a price". Another said, "the US is the home of capital markets – and the biggest single thing is the depth of US markets, at all points of duration". That is, where "duration" refers to the time that the debt is outstanding.

This can be seen in a straightforward way from the following chart decomposing Australian debt issuance by currency of issue. US dollar denominated issuances dominate Euro-denominated issuances by a very wide margin.
The banking sector

The Australian banking sector is a large and crucial part of the economy. In fact, the four largest publicly traded companies on the Australian Stock Exchange are the so-called “Big 4” banks: Commonwealth Bank (CBA), Westpac, ANZ, and National Australia Bank (NAB). Their combined market capitalisation as of 1 June, 2017 was A$402.9 billion, or 23.9 per cent of the ASX 300 index. When adding in Macquarie Bank, this figure increases to 25.7 per cent. The Big 4 Australian banks, with their good credit ratings and cheap borrowing capabilities, have large balance sheets and are particularly reliant on wholesale funding (i.e. funds in addition to demand deposits). In a December 2016 review of CBA’s funding position, ratings agency S&P Global Ratings concluded that the “CBA and the other Australian major banks are materially reliant on wholesale funding”. Although there were some concerns about the stability of this funding in the wake of the 2008 financial crisis, it is now generally accepted that the Australian banking sector is generally sound and has passed appropriate “stress tests”. Our research has found that the US market is not only completely indispensable as a source of funding for the Big 4 banks but this fact has significant flow-on benefits for Australian mortgage holders as well as businesses to which the Big 4 banks lend. Interestingly, Australian mortgage holders also benefit in another, somewhat more direct way from US investment. The enormous amount of cash held offshore by major US companies such as Apple, Google, and eBay are often invested in overseas securities. These companies have been seeking out Australian housing exposure, thus lowering the funding costs of Australian mortgage holders.

Other sectors

US debt markets are also vital for non-bank Australian issuers. In addition to public offerings, the US private placement market (USPP) and offerings under Rule 144A of the Securities Act of 1933 (144A), nonpublic or unregistered debt offerings, are popular among Australian issuers. USPP and 144A offerings allow Australian issuers a great deal of flexibility, particularly in issuing debt of different durations. US pension funds are a vital player in such markets. The size of US pension funds is important in underpinning this flexibility. The fact that many Australian companies have significant US revenues also makes US debt markets attractive for reasons to do with foreign exchange exposure. There are now currently more than 40 ASX-listed companies which have approximately 30 per cent or more of their revenues denominated in US dollars. Notable examples include Mayne Pharma (87 per cent), James Hardie (80 per cent), Westfield (69 per cent), and ResMed (61 per cent).
Public sector debt

Since the financial crisis of 2008, the Commonwealth of Australia has run persistent budget deficits of a significant size. Total (gross) Commonwealth debt stood at just over $420 billion at the end of 2016. Given the growing size of this debt, along with existing debt maturing, the annual issuance amount is sizeable. For instance, in 2016 A$80.2 billion of treasury bonds were offered, along with $15 billion of treasury notes.

The following chart shows the material proportion (now 55.4 per cent) of total Australian Government Securities on issue held by non-residents of Australia. It is immediately clear that international markets are extremely important for Australia to fund its day-to-day governmental operations, and the United States is estimated to be a very sizeable purchaser of Australian government securities.

Non-resident holdings of Australian Government Securities

Fig. 14

ASX-listed companies with US revenue

Fig. 13

<table>
<thead>
<tr>
<th>Company</th>
<th>Percentage of global revenue that is US-sourced</th>
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<tr>
<td>Mayne Pharma</td>
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<td>James Hardie Industries</td>
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Source: Bloomberg

Source: Australian Office of Financial Management
Australian superannuation funds in the United States

Although it is natural to focus on the tremendous funding needs of Australian entities that are often met in US capital markets, it is worth emphasising that there is also significant outbound investment from Australia to the United States.

The area where this is largest and most notable is investment by Australian superannuation funds into the United States. According to OECD figures Australia has the third largest pension fund assets in the world, behind the United States and the United Kingdom. At the end of March 2017, the total size of Australian superannuation was approximately A$2.3 trillion, an impressive sum given that the total market capitalisation of the ASX 300 on 1 June 2017 was A$1.689 trillion.

A significant factor behind this is the 9.5 per cent superannuation guarantee, Australia’s compulsory employer-paid system of superannuation saving for employees introduced in 1992. According to current legislation, the Superannuation Guarantee rate will increase to 10 per cent from July 2021, and eventually to 12 per cent from July 2025.

The sheer size of the Australian superannuation sector relative to investment opportunities in Australia necessitates looking for offshore investment opportunities. Added to that, there are sound reasons for diversification by investing offshore, with the United States a large and attractive market.

It is estimated that more than A$500 billion, more than 20 per cent of Australia’s total sum of superannuation funds, is invested in the United States at the present time. A substantial amount of this investment is in the US infrastructure market by Australian superannuation fund managers such as IFM – the largest manager of Australian infrastructure assets and the third largest infrastructure investor in the world. This means that Australian workers are invested in the renewal and revitalisation of US airports, roads and bridges.
Why US markets?

A natural question to ask is why US debt markets seem so preferable to other markets, such as European markets. The overwhelming response from market participants – both issuers and banks that facilitate issuance – is the depth, reliability, liquidity, and flexibility of US markets.

US debt markets participants are underpinned by pension funds. But Australian investors have decades of experience in these markets. Ultimately, this has helped create a strong reputation, in the way that only long-run experience from lenders can. This liquidity-reputation dynamic creates a virtuous circle whereby the attractive US market causes greater Australian-company issuance, thereby increasing the attractiveness of US markets.

Although European markets are important, our research has found them to be smaller, less liquid, and more specialised than the US market. Apart from a general “first-mover” advantage of US markets, market participants point to two other important factors. The first is the relative macroeconomic risk of Europe relative to the United States. Recent macro-political issues in Europe, such as the Greek debt crisis, the so-called “Brexit” vote in the United Kingdom, and the macroeconomic issues facing several southern European countries all speak to an increasingly uncertain macroeconomic environment. The second factor is that participants in the European debt market – such as insurance companies – typically have a different mandate and/or operating strategy than US pension funds. Currency is also a major factor in making US markets more attractive than other markets. The Australian Dollar (AUD) is the fifth most traded currency in the world. One market participant said of the Australian dollar: “the Australian currency is a globally relevant currency – and it is increasingly used as a proxy for Asia.”

Moreover, Australian borrowers access what are essentially synthetic Australian-dollar denominated prices using cross-currency/basis swaps, a form of interest-rate derivatives. Given this, one indicator for the depth of the US market for Australian borrowers is by looking at the cost of swapping Australian and US dollar (USD) interest payments. A natural approach is to look at the interbank lending volumes in the AUD-USD market. In that market, a lower “per pip” (unit of foreign exchange price movement) USD equivalent indicates a deeper market – so moving between the AUD and USD is cheaper. The following chart shows this for a number of currencies and the US dollar. The AUD-USD line is notable, which shows how deep this market is for Australian companies.

It is also worth noting that seemingly small differences in funding costs, or maturity structure, can strongly tilt the balance towards the US market over other markets.

Interbank volume

Fig. 15

![USD equity millions per basis point](#)

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<tr>
<th>Date</th>
<th>AUDUSD</th>
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Source: Citi Australia

Summary

US capital markets have a critical role in Australia’s economy: they are an indispensable source of capital for Australian businesses. The Big 4 banks are the most obvious cases-in-point, given their large wholesale funding requirements. Their capacity to access US markets is crucial for their own funding but that, of course, flows directly on to their customers through an increased capacity to provide credit.

Australian households are a huge and clear beneficiary of this. It is not a stretch to say that Australians’ mortgages are brought to them by US capital markets.

A natural question to ask is why US debt markets seem so preferable to other markets, such as European markets. The overwhelming response from market participants – both issuers and banks that facilitate issuance – is the depth, reliability, liquidity, and flexibility of US markets.

Although European markets are important, our research has found them to be smaller, less liquid, and more specialised than the US market. Apart from a general “first-mover” advantage of US markets, market participants point to two other important factors. The first is the relative macroeconomic risk of Europe relative to the United States. Recent macro-political issues in Europe, such as the Greek debt crisis, the so-called “Brexit” vote in the United Kingdom, and the macroeconomic issues facing several southern European countries all speak to an increasingly uncertain macroeconomic environment. The second factor is that participants in the European debt market – such as insurance companies – typically have a different mandate and/or operating strategy than US pension funds. Currency is also a major factor in making US markets more attractive than other markets. The Australian Dollar (AUD) is the fifth most traded currency in the world. One market participant said of the Australian dollar: “the Australian currency is a globally relevant currency – and it is increasingly used as a proxy for Asia.”

Moreover, Australian borrowers access what are essentially synthetic Australian-dollar denominated prices using cross-currency/basis swaps, a form of interest-rate derivatives. Given this, one indicator for the depth of the US market for Australian borrowers is by looking at the cost of swapping Australian and US dollar (USD) interest payments. A natural approach is to look at the interbank lending volumes in the AUD-USD market. In that market, a lower “per pip” (unit of foreign exchange price movement) USD equivalent indicates a deeper market – so moving between the AUD and USD is cheaper. The following chart shows this for a number of currencies and the US dollar. The AUD-USD line is notable, which shows how deep this market is for Australian companies.

It is also worth noting that seemingly small differences in funding costs, or maturity structure, can strongly tilt the balance towards the US market over other markets.

Interbank volume

Fig. 15

![USD equity millions per basis point](#)

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Source: Citi Australia
Incitec Pivot (IPL) is an industrial chemicals company specialising in industrial explosives, chemicals and fertilisers through its manufacturing of nitrogen-based products. With an Australian history going back to 1919, IPL is now Australia’s largest manufacturer and distributor of fertilisers and one of the world’s largest manufacturers and distributors of industrial explosives.

IPL had already made a sizeable investment in the United States with its A$3.3 billion purchase of the Utah-based Dyno Nobel in 2008 – the largest explosive manufacturer in the United States – when it made major headlines again in 2013 by deciding to be the first company to build a world-scale ammonia plant in the United States in 20 years.

The decision to invest such a sizeable sum was not an easy one for the Australian company. According to IPL’s chief executive James Fazzino, “as a general rule, investing in the chemical industry tends to ruin shareholder value”. Fazzino has found that the exception to that – and where the profit lies – is where there is “discontinuity” in the market.

Such an opportunity presented itself with the US shale gas revolution. Given that the majority of the cost associated with making ammonia is gas, the massive influx of cheaper gas arising from fracking occurring across the United States was the exact sort of disconnect that IPL has looking to capitalise on.

One of the earliest companies to take advantage of the North American shale revolution, the United States is now the source of around half of IPL’s more than A$3 billion in total annual revenue. The development of the A$1 billion Louisiana-based plant, along with IPL’s other US operations, is expected to soon make IPL’s US operations account for a majority of its global earnings.

IPL was, naturally, questioned back home for its choice of building a plant in the United States over Australia – which was, at that point, still enjoying massive profits from Chinese demand. The company went as far as to spend A$30 million on a feasibility study for building an ammonium nitrate plant in Newcastle, NSW. Ultimately, however, IPL determined Australia’s convoluted regulatory environment, energy costs in Australia compared with the United States, and limited long-term customer base for a Newcastle operation would be insufficient for such a sizeable investment.

According to Fazzino, the standards and regulations for building an ammonia plant in Louisiana were higher than in Australia, but the Louisiana government went out of its way to work with IPL to streamline the process, quickly making available the necessary government authorities to expedite the process. When IPL said that it needed to quickly get the construction of the plant started, the state allowed IPL to pay the necessary overtime for the regulatory personnel to get the job done, he said. Fazzino believes that at the end of the three years that it took to get the Louisiana plant built and running, the potential Newcastle plant would have only just concluded the approval stage.

Furthermore, Fazzino said, “people forget the US economy is the largest in the world”, thereby giving it access to the world’s largest market. IPL’s Australian project development expertise was critical to its foray into the United States in that the company had, only a few years prior to its investment in Louisiana, built an ammonium nitrate plant in Moranbah, Queensland. It capitalised on that as well as its experience with US operations, the fact that the US ammonia industry had downsized, the disruptive nature of the shale gas revolution, and the regulatory environment in the United States being favourable for their ambitions.

Incitec Pivot

**ASX:** IPL

**HEADQUARTERS:** Melbourne, Australia

**SIGNIFICANT FIGURE:** A$1 billion invested in ammonia plant in Louisiana

**WHY AMERICA?**

- **Massive US market size**
- **Unique Australian expertise**
- **Lower labour and manufacturing costs**

“People forget the US economy is the largest in the world”
Citi Australia is the largest international bank in Australia and was among the first foreign banks to be granted a banking licence in 1985.

Although Citi has a modest-sized retail banking operation – it has around 0.5 per cent market share of deposits and mortgages – it brings significant advantages and plays a big role in the retail banking market. Also, being the largest credit card issuer in the world, it brings scale and innovation to the Australian market, where it holds an 11 per cent share. Citi currently extends $17 billion in loans to its Australian retail and institutional clients.

The global network that the New York-based Citi has is critical for its Australian clients. The firm started moving outside the United States more than a century ago and now operates in 100 countries, with a consumer presence in 19 markets around the world. Being the most international bank in the world, it can bring its network to bear for its Australian clients throughout all its product offerings.

One of the most striking things that comes through in the Citi experience is the fundamental importance of US debt markets – and the key role that US financial institutions play. The “trans-Pacific pipe of capital”, as Citi Australia’s chief country officer David Livingstone characterised it, is fundamental for funding the Big 4 commercial banks: CBA, NAB, Westpac and ANZ (with US$29 billion raised for them last year alone), but also for other corporates.

This happens through direct access to US markets for some companies, but for many small and medium enterprises (SMEs) it is the funding that the Big 4 banks are able to access from the United States that flows on into Australia – allowing significant lending to the SME sector. The United States is the largest and most sophisticated capital market in the world, dwarfing Europe in its importance for Australia.

“Not all financial innovation happens in the United States, but a lot of it does,” Livingstone said.

Human capital and knowledge transfer is also crucial. “We bring Australian talent back to Australia,” Guy Matthews, Citi Australia’s head of corporate affairs, said. It is common for Australian Citi executives to spend a decade or more in overseas markets before returning home to Australia, bringing skills and perspectives that can benefit their local colleagues.

Citi sees this with its clients, too. Expertise and knowledge transfer has been particularly important in the LNG sector, for example.

Like many other companies, Citi views Australia’s attractiveness as an investment destination stemming from its respect for the rule of law, being part of the OECD, the Australian Stock Exchange and its regulatory provisions, the fully floating exchange rate, and a strong base of experienced professional services talent such as lawyers and accountants.

In terms of Australia as a destination for foreign investment, global competitiveness is the key dynamic. The corporate tax rate is important – particularly since Australia is now one of the highest taxing OECD countries, whereas in the early 2000s it was one of the lowest. Personal income tax rates are also important for attracting management talent. “We can’t keep taking the lifestyle dividend forever,” was how Livingstone put it. Part of bolstering that lifestyle dividend is about the physical infrastructure of cities themselves, which has implications for amenities, commuting times, and quality of life more generally.

**NYSE:** C  
**HEADQUARTERS:** New York, New York  
**SIGNIFICANT FIGURE:** More than $4 billion invested in its Australian businesses  
**WHY AUSTRALIA?**  
- High-skills workforce  
- Internationally-mobile work force  
- Tech-savvy population  
- Developed but limited market conducive to testing new technologies  
- Mature and liberal financial system  
- Lifestyle dividends attracting high skilled workforce  

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Survey analysis

In early discussions with academics and business leaders concerning research on the US-Australia investment relationship, there was a common sentiment that US foreign direct investment was particularly valuable because there was a distinct benefit to having US expertise in Australian business operations.

Anecdotally, various parties said that many Australian firms would go out of their way to hire Americans or individuals with significant American expertise for their management and corporate boards. The given reasons for this strategy varied. Some offered the notion that Australian corporate boards were often “old boys clubs”, filled with old friends instead of innovative business leaders. Others opined that the typical American business mindset was simply more ambitious than the typical Australian’s.

While there are studies of Australian business attitudes towards specific markets – particularly Australian companies engaged in exporting – there appears to be no recent research concerning business leaders’ attitudes towards the “spill over” effects of international investment, such as better business skills. One 1964 study on US investment in Australian manufacturing by Don Brash, the future governor of the Reserve Bank of New Zealand, reported that 57 of 75 American-affiliated companies in Australia said that US technical know-how was vital to their total operation.44

Given the abundance of anecdotal evidence and scarcity of systemic research on the topic we conducted, a business survey was conducted to determine the veracity of the claim that Australian businesses explicitly sought out US expertise. More importantly, however, was the need to quantify the value of expertise and investment from certain countries – the United States, Japan, China and Australia – to businesses with operations in Australia.

Specifically targeted were Australian-based company representatives knowledgeable as to their company’s ownership, revenue, size, and strategy. For these reasons, C-Suite level executives were specifically sought out to complete the survey.

The online survey was conducted in May and June 2017 and was completely anonymous in the hope that respondents would give their honest answers.
Survey design

The survey was designed to be easy to complete, comprising just 33 multiple choice questions and the opportunity to add qualitative responses on an additional six optional questions. The average completion time was six minutes.

Company information sought included annual revenue, number of employees, sectors engaged in, states and territory locations, location of world headquarters, which locations the companies primarily sell their goods or services, and whether they engage in research and development.

We asked the following five questions with reference to Australia, the United States, China and Japan:

- How valuable is this country’s expertise on your corporate board?
- How valuable is this country’s expertise in your management?
- How valuable for your business is an increased market share in this country?
- How valuable is this country’s expertise in growing your business?
- How valuable is increased ownership from this country in your business?

We defined expertise as a citizen of that country or someone with significant experience or education from that country.

The available options to respondents for these questions: “no value”, “little value”, “moderate value”, “high value”, “extremely high value”, or “not applicable”.

Both the order in which the countries were listed and the questions asked were randomised.
Respondent profile

What percentage of your company is US owned?
Fig. 16

- 100% 54.55% (24)
- More than 10% but less than 50%
- Up to 10% 9.09% (4)
- 5% 25.00% (11)
- Other (please specify) 6.67% (3)

Answered: 44 Skipped: 1

What do you approximate is your company’s annual revenue for your Australian operations?
Fig. 17

- A$250 million or more 46.67% (21)
- A$101-249 million 13.33% (6)
- A$51-100 million 6.67% (3)
- A$26-50 million 4.44% (2)
- A$11-25 million 6.67% (3)
- A$3-5 million 2.22% (1)
- A$2 million or less 13.33% (6)
- Other (please specify) 2.27%

Answered: 45 Skipped: 0

How many employees does your company have in Australia?
Fig. 18

- 2,001 or more 20.00% (9)
- 1,001-2,000 17.78% (8)
- 501-1,000 8.89% (4)
- 251-500 17.78% (8)
- 101-250 8.89% (4)
- 11-50 8.89% (4)
- 10 or less 8.89% (4)

Answered: 45 Skipped: 0

A total of 45 company representatives with operations across Australia completed the survey. Twenty-seven of the companies were foreign owned, with all but three of the foreign-owned companies being US-owned. The median company had between 250 and 500 employees in Australia, while almost half of the companies reported A$250 million or more in annual revenue.

More than two-thirds of the companies had staff operating in New South Wales or Victoria, and just over half had staff operating in Western Australia, South Australia, or Queensland. Less than a third of the businesses had staff in the Northern Territory or Tasmania.

Around two-thirds of the companies engaged in research and development in Australia.
Survey results: Do Australian businesses prefer US expertise?

Fig. 19

**Australia v US**
- Not majority US owned: 61
- Majority US owned: 52

**China v US**
- Not majority US owned: 12
- Majority US owned: 80

**Japan v US**
- Not majority US owned: 6
- Majority US owned: 80

**Board expertise**
- Australia: 53
- China: 28
- Japan: 28

**Expertise in growing business**
- Australia: 35
- China: 56
- Japan: 56

**Increased market share**
- Australia: 47
- China: 67
- Japan: 67

**Management expertise**
- Australia: 33
- China: 32
- Japan: 32

**Ownership**
- Australia: 25
- China: 25
- Japan: 25
Given the limited sample size of the survey, it is difficult to say that the survey results confidently represent the wide array of business leader sentiment in Australia. Nonetheless, the 45 respondents provided valuable insights into the value of foreign expertise, ownership, and business ambitions.

Perhaps the most striking conclusion from the survey respondents is the fact that non-US-owned firms operating in Australia generally valued US expertise less than Australian expertise. At the same time, however, a remarkable disparity appears in terms of attitudes towards US expertise compared to expertise from China and Japan. No more than 12 per cent of non-US-owned respondents preferred Japanese or Chinese expertise of any kind over US expertise. Indeed, around three quarters of non-US companies preferred US board expertise, management expertise, and expertise in growing their business to Japanese or Chinese alternatives.

An oft-repeated theme in our case studies is the fact that Australia is often seen as a great launching pad into Asia, yet surprisingly few of the respondents preferred increasing their market share in Japan or China more than the United States. Only 11 per cent of non-US-owned firms valued increasing their Chinese or Japanese market share more than increasing their US market share.

### The value of US ownership compared to Australian ownership

Interestingly, one notable exception to a clear preference for Australian business dealings was in ownership. While 19 per cent of non-US-owned firms preferred US ownership, a similar proportion (25 per cent) preferred the Australian alternative, with more than half of the remaining respondents being neutral on the topic. This suggests that increased US ownership or investment into these non-American companies operating in Australia is generally seen to be generally equal in value to increased Australian ownership or investment.

Compared to non-US-owned firms, American firms indicated more of a preference for US investment, expertise, and market share over Australia in every measure. Yet even then, the stronger preference for US investment, expertise, and market share by US firms was not as dominant as one may have expected.

### US investment, expertise and market share compared to China and Japan

When compared to China and Japan, there was very clear evidence that all firms surveyed valued expertise, ownership, and an increased market share in the United States more than China or Japan. Unlike comparisons between the United States and Australia, there was little ambiguity in answers on China and Japan.

American firms in Australia reported a stronger preference for US expertise over Australian expertise than non-US firms did, but not by an overwhelming margin. Indeed, American firms were split in regards to US versus Australian management expertise; with a third preferring US expertise, a third preferring Australian expertise and a third remaining neutral. Furthermore, nearly half of the US firms (46 per cent) were neutral about whether US or Australian expertise would grow their businesses.

The most stark contrast between US and non-US firms was with respect to board expertise: most American firms (52 per cent) preferred US board expertise, while most non-US-owned firms (61 per cent) preferred Australian board expertise.

### Industry insight on Australian corporate boards

Tim Boyle, managing partner of the Melbourne-based board advisory firm Blackhall & Pearl, told us that the argument that Australian corporate boards are “old-fashioned” may have been relevant 10 years ago but is not necessarily true today. According to Boyle, who has a doctorate in corporate board performance and whose firm has advised most of the top Australian firms, Australia is on par with the United States or even better in some respects, such as governance and training.

Ambition and risk appetite, however, are different stories. Boyle reported that Australian boards are not as aware of risk, accepting of innovation, or tolerant of failure as many US boards are. Unlike many US boards, where there is a mindset “that you’ve got to roll the dice sometimes”, Australian boards are not as tolerant of mistakes, he says.

Furthermore, while Australian boards are moving to be more skills-based, Boyle has noticed that too many have a bias to only hire people they personally know.

In terms of whether US expertise is specifically sought out for corporate boards more than Australian expertise, Boyle finds that the types of US expertise are more important than the fact that a prospective board member is American or has US experience. American managerial expertise in the technology sector, for example, would be far more valuable to an Australian board than American expertise in manufacturing. Furthermore, US commercial experience – actually engaging in the business instead of just board membership – would also be more valuable to Australian boards. The United States benefits from not only being the world’s largest market but also having the deepest “gene pool” for finding board members, so there is an obvious bias for Americans on Australian corporate boards, Boyle said.
One of the largest independent biotechnology firms in the world, southern California-based Amgen researches, develops, and manufactures drugs used to combat difficult to treat illnesses ranging from cancer and osteoporosis to kidney and cardiovascular disease.

A leader in advanced human genetics, Amgen focuses on a small range of highly-specialised drugs for areas of high unmet medical need – having produced a total of 15 drugs since its founding in 1980. Two of its most well-known and highest-selling drugs include Prolia to treat osteoporosis, and Neulasta, which builds white blood cells to reduce infection in chemotherapy patients.

Having been in Australia for 26 years of its 37-year history, Amgen has treated tens of thousands of Australians suffering from difficult to treat illnesses. Yet Amgen’s investment in Australia is clearly not motivated by revenue alone: Australia accounted for only around one per cent of its global revenue in 2016, contributing $300 million to the company’s overall revenue of A$30 billion.

In Amgen’s calculations, the ultimate value of Australia lies in its high quality medical infrastructure and world-leading research facilities. While Amgen is active in approximately 100 countries around the world, Australia’s uniquely robust and mature hospital system has allowed Amgen’s Australian operations to participate in approximately 25 per cent of the company’s worldwide clinical trials. Australia is home to only 200 of Amgen’s 20,000 global employees, yet more than a third of the full time staff in Australia – primarily in Melbourne – focus on local research and development.

By nature, clinical trials are time-consuming, complex, and expensive. To be done correctly, they require an entire ecosystem being in sync. Good physicians, strong intellectual property protections, and a stable regulatory environment with little sovereign risk are just some of the necessary components. Australia is made all the more attractive as an investment location for biotechnology research and development given its high-quality research institutions, the congruous nature of its medical standards to other developed countries, and the fact that the country has all of these attributes on an island – naturally allowing for a targeted and limited market.

In 2016 alone, Amgen ran more than 40 different studies at 230 sites across the country involving more than 1,000 patients, with a significant portion of the research focusing on haematology, oncology and cardiovascular disease. The deep and established ties that Amgen has established from years of research and development have only further solidified the necessary foundation to allow for further biomedical research in Australia. Future research will focus on Amgen’s cutting-edge exploration of genetic mapping to develop personalised medicines.

The benefits for Australia that result from Amgen’s sizeable investment in clinical trials go beyond the fact that Australian patients, often with no other available remedy, are some of the first in the world to be given new means of fighting their illnesses. The economic multiplier effects of such research are immense: Amgen’s clinical trials also support the work of cutting-edge physicians and researchers, help medical staff and researchers develop new skills, and ultimately result in increased workforce participation.

**Why Australia?**

- Intellectual property rights
- Strong medical infrastructure
- Strong research abilities
- Research & development

“The ultimate value of Australia lies in its high quality medical infrastructure and world-leading research facilities”
Google is a highly visible technology company specialising in a number of areas including internet search, cloud computing, software platforms and applications, and hardware.

Australians use Google’s products as part of their daily lives to find information, plan travel and work more productively. At an economic level, the company supports an immense amount of business activity in Australia. According to one report, more than 840,000 Australian businesses connected with consumers via Google in 2015 alone, while generating A$15.1 billion using Google platforms.iii The same report found that on a typical day in 2015, Australians sent an average of 190 million emails using Gmail – twice the number of Australian phone calls.

Today’s technology companies require 24-hour global stability on their platforms. A Gmail user needs assurance that their email will not go down even as engineers in the United States sleep, and users value the fact that content they create for a platform like YouTube will be accessible by audiences anywhere in the world and in any time zone. For this to be the case, Google needs engineering teams in places like Australia to keep their global platforms online.

The question of “why Australia” goes further for Google. The company invests more than A$400 million per year in its Australian operations and has a long-term approach to talent development in Australia. This includes deep links to Australian university computer science programs and programs to develop STEM skills and support for careers in computer science in Australians schools. Google has also collaborated with Adelaide University to develop a “Massive Open Online Course” for teacher professional development on Australia’s new Digital Technologies Curriculum, which has been taken by more than 10,000 teachers.

"A culture that is open to innovation and new ideas is an important part of what helps Google attract talent to Australia,” Google Australia’s Public Policy Manager Alexander Lynch said.

"The computer scientists we employ at Google Australia could find work anywhere in the world,” Lynch said. “They choose Australia because of its culture, the quality of life, and Australians’ openness to new arrivals. Importantly, there has been a pathway to permanent residence in Australia for people and families with the skills Google can use to compete effectively in the global digital economy.”

Google’s presence in Australia has not only been useful in securing highly-skilled computer scientists from overseas. More than 500 Australians now work for Google elsewhere in the world, and many will bring the global technology skills they have acquired back to Australia.

Google’s large engineering presence has played a part in the development of Australia’s growing technology and startup industry. Google helped found and continues to support StartupAUS, an organisation that represents the interests of startups in Canberra, and supports Fishburners, the largest network of non-profit co-working spaces in Australia, through its Google for Entrepreneurs program. It also provides mentoring for startups in the co-working space near Google Australia’s head office in Sydney. Google Australia’s engineers have gone on to work in some of Australia’s most promising digital companies.

Although the investment environment in Australia is attractive, there are clear challenges to be addressed in ensuring that this remains the case in the future. It is also worth emphasising that a spirit of “continual policy improvement”, akin to continual process improvement in business, is important to making sure that Australia does not become less attractive relative to other destinations for US investment.

From a policy perspective, we see foreign investment into Australia taking two forms. Firstly, there is investment into the physical characteristics of a country, most clearly demonstrated by the numerous mining or oil and gas investments across Australia. These are investments that companies would want to make almost regardless of the local labour force and skills. Secondly, and most relevant to Australia, is foreign investment driven by local skills and talent. Companies, particularly those engaging in innovation, want to secure the best and brightest minds working at their firms and are willing to come all the way to Australia to do it.

All of the components of this report – the economic analysis, the survey of business leaders, and the case studies – point in the same direction regarding Australian public policy.

All of these components confirm that for Australia to continue its highly valuable investment relationship with the United States, a consolidation of some of the important reforms of the past and resistance to populist impulses will be necessary.

There are six main areas where public policy can best enhance the wide-ranging Australia-US investment relationship and deliver benefits to the Australian economy.
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Policy priority 1: Immigration

The 457 visa is a temporary work visa for skilled migrants to Australia that permits a migrant to work in their nominated occupation by an Australian employer sponsor for up to four years. The visa has provided an important path to Australian permanent residency and citizenship.

The Coalition government announced changes to the 457 visa program in April 2017 that would restrict skilled immigration into Australia. As Peter Dutton, the Minister for Immigration and Border Protection, put it:

“The existing 457 visa program… essentially it is open-ended, and it results, in many cases, in a migration outcome.

What we propose is that under the temporary skills shortage visa short-term stream there will be a two-year visa, with the options of two years, but there won’t be permanent residency outcomes at the end of that.”

The number of 457 visas granted is significant, averaging around 100,000 migrants per year in recent years, compared to half that amount or less 15 years ago.

Concerns have been raised that existing workers on 457 visas will have their path to permanent residency curtailed, and that employers will no longer be able to attract high-skilled workers in the technology, university, and other sectors critical to Australia’s economy. Discussions with Australian businesses undertaken in the course of preparing this report suggest that employer fears are both important and well-founded.

One of the cornerstones of the business model of many of the firms highlighted in this report, particularly those engaging in highly-skilled work, is the ability to attract highly-skilled workers of exceptional quality to their Australia operation. Part of what makes Australia an enticing destination for such highly skilled overseas workers is the presumption they will have security of tenure in the country.

While abuse of immigration regulations should be addressed, the current changes and stances of both major political parties put that certainty of tenure in doubt, and thus threaten Australia’s investment into talent by restricting the flow of highly-skilled overseas workers into Australia.

There is also the very real possibility of a backlash from other countries that limits the ability of Australian nationals to work overseas, gain expertise, and return to Australia with those skills. The Australian E3 work visa to the United States, which allows Australians in highly-skilled fields and their spouses to work in the United States, is an example of a program that could be threatened if “tit-for-tat” immigration policies are pursued. The E3 is particularly attractive for Australians, allowing up to 10,500 Australians a year to gain access to the United States for employment purposes – although that quota has yet to be met.

In short, the two-way knowledge transfer that is a critical part of the US-Australia investment relationship is under threat unless continued flows of highly-skilled workers between Australian and US employers are maintained.
Cities are, of course, about more than just housing affordability. Transportation infrastructure, public goods and other amenities, cultural attractions, and other factors are all important components. While Australian cities rate very highly on most of these dimensions, the forecasted increase in population numbers over the coming decades will require continued policy responses to ensure that Australian cities remain highly attractive for talent-centric foreign investment.

Policy priority 4: Tax rates

At 30 per cent, Australia currently has the fifth highest corporate tax rate in the OECD, yet in 2003 had only the 18th highest in the OECD. There is a further trend among countries like the United States and the United Kingdom to potentially lower their corporate tax rates by a significant amount.

Although Australia, too, has considered lowering its corporate tax rate, present legislation envisages only a very gradual lowering of the rate to 25 per cent, and quite possibly only for companies with annual turnover below A$50 million. This makes investing in Australia relatively less attractive, all else equal, than investing in other jurisdictions.

A recognition that financial capital is highly and increasingly mobile is important for continued foreign direct investment in Australia.

“So many policy changes and the continued lack of clarity about implications for business creates investment uncertainty for all business in Australia.”
Policy priority 5: **Barriers to portfolio investment**

Portfolio investment already makes up more than 60 per cent of the total US investment into Australia but further progress could be made in this area.

Nearly a decade ago, there was a push for greater comity between US and Australian financial markets, with negotiations getting to the point of preliminary agreement on a “mutual recognition framework”. The arrangement – signed by and predicated on further cooperation between the US Securities and Exchange Commission and the Australian Securities and Investments Commission – was intended to allow US and Australian stock exchanges and brokers to operate in both jurisdictions without being subject to additional regulations. Essentially, US and Australian investors would have been able to engage with each other’s stock markets with less red tape.

Unfortunately, however, US and Australian officials signed preliminary documents on 25 August 2008 – less than a month before Lehman Brothers declared bankruptcy and the beginning of the financial crisis. This, along with the leadership changes, ultimately resulted in no implementation of a final agreement that was intended to go into effect as early as 2009.

Another barrier to more portfolio investment in Australia is the fact that it is often inadvertently captured by the Foreign Acquisitions and Takeovers Act of 1975, therefore necessitating extra scrutiny by FIRB. Major foreign portfolio investors could easily take a sizeable interest in a company that requires FIRB approval yet, as passive investors, not exercise control or even have the desire to exercise control over the company. This regulatory requirement acts as a significant deterrent to foreign portfolio investment. Preliminary discussions on addressing this took place between the United States and Australia as part of the US Free Trade Agreement but no final decision was made.

Further progress in reducing transaction costs and creating greater contracting certainty would allow for even more two-way capital flows between the United States and Australia, with concomitant improvements to investment outcomes.

Policy priority 6: **Statistics**

Finally, the Australian government could certainly do more to document investment flows into and out of Australia. No economic challenge can be fully addressed without an appropriate comprehension of the relevant economic data. The data currently available through the Australian Bureau of Statistics is simply not granular enough – particularly when compared to the available US economic data. Ultimately, analysis of Australia’s economic status suffers as a result. Our research is but one of a plethora of analyses on foreign investment in Australia that has concluded that more data is necessary.

Furthermore, the Foreign Investment Review Board (FIRB) has a significant amount of “nascently available” data from the applications it receives. Through an appropriate anonymising and digitising process, these could be made publicly available to researchers and the business community.

A growth of data gathered from the Australian Bureau of Statistics and a sharing of data from FIRB could better document and understand the magnitude and importance of Australia’s investment relationships.
With more than A$115 billion in global revenue, the Boeing Company based in Chicago is the world’s largest aerospace company. Approximately two-thirds of its global revenue in 2016 came from Boeing’s commercial airplanes business with the remaining one-third of revenues derived from the company’s defence and space work.

The fact that Australia is Boeing’s largest operational footprint outside of the United States is no coincidence and certainly did not happen overnight: Boeing has invested more than A$1 billion in its Australian operations, which date back to 1927 through Boeing’s heritage companies. Today, Boeing has more than 3,000 employees across seven wholly-owned subsidiaries located in 27 locations throughout the country. It is engaged in a wide variety of sectors, including advanced manufacturing of complex airplane components, defence systems development, research and development, training/modifications/upgrades, and unmanned systems.

Because it takes a long-term view of its business and where its resources should be located to best serve its customers, Boeing continues to invest in its Australian operations. Boeing has invested in manufacturing upgrades at its Fishermans Bend facility in Melbourne, as well as new facilities for its defence team in Brisbane and Adelaide.

The multiplier effects of Boeing’s investment in Australia are enormous. In 2015 alone, Boeing spent around A$400 million at more than 1,000 Australian suppliers. Boeing’s many decades of work with Australian suppliers have not only helped Boeing’s global development but also given local companies like the Victoria-based Lovitt Technologies, over the course of its 20 years of work with Boeing, the opportunity to grow. Lovitt grew “from an automotive tooling supplier into a globally competitive aerospace component manufacturer”, according to the president of Boeing Australia, New Zealand and South Pacific, Maureen Dougherty. She said there are a number of reasons for this sustained engagement.

Firstly, Australia is a fundamentally democratic country with rule of law and transparency similar to the United States. Secondly, Boeing has major military and commercial sector customers in Australia. As a US-owned company, the military component in particular would obviously be more difficult to navigate if Australia did not have such extremely close US ties. In Dougherty’s view, there’s an interoperability and interchangeability in the US-Australia relationship that allows for close collaboration between Boeing’s US and Australian offices.

Lastly, Boeing’s close partnerships with local universities, private institutions, and government organisations have been integral to Boeing’s success in Australia. Partnerships with local universities such as the University of Queensland, Queensland University of Technology, and the Royal Melbourne Institute of Technology as well as CSIRO, the federal government agency responsible for scientific research in Australia, have not only helped to drive innovation in aerospace systems design, development and manufacturing. Such partnerships, particularly with universities, have also given Boeing the critical ability to develop a pipeline for future talent.

One of the innovations arising from Boeing’s work in Australia is used at Boeing Aerostructures Australia at Fishermans Bend in Victoria. The Victorian team is the sole supplier of many of the moveable trailing edges, such as wing flaps, of one of the most technically advanced planes in the world, the 787 Dreamliner. It is the only Boeing site in the world that applies a “resin infusion” system on components of the Dreamliner’s moveable trailing edges – a technology developed in Victoria that makes the plane lighter and more efficient.

Given Boeing’s sustained and committed investment and impact over many decades, it came as little surprise when Boeing won the Australian Trade and Investment Commission’s inaugural Investment Award in 2016.
Lendlease is an Australian property company, founded in 1958. Headquartered in Sydney, Australia, it has 12,000 employees worldwide, with regional offices in New York, Singapore, and London.

Some of the company’s noteworthy projects include: Barangaroo South, Darling Square, Victoria Harbour and Brisbane Showgrounds in Australia; Elephant & Castle and International Quarter London in the United Kingdom; Paya Lebar Quarter and Tun Razak Exchange in Asia; and Riverline in the United States.

Lendlease is a great example of the role the two-way investment relationship with the United States plays in fostering the growth of Australian businesses.

The sheer scale of the US market presents significant opportunities for companies like Lendlease, but the structure of the market is important, too. “Property is inherently local”, Dale Connor, the CEO of Building in Australia said, “the way we come to market is different in different places”.

That also creates an opening. While a single US city is big enough to matter, it is also localised enough that a strategic error does not cause damage to the brand nationwide. This allows Lendlease to experiment in local US markets with different business models and product offerings.

Lendlease’s US effort focuses primarily on “gateway cities”: New York, Boston, Los Angeles, Chicago and San Francisco – each different, but each large enough to support a meaningful-sized business in its own right.

One opportunity the company sees is to take the Public-Private-Partnership (PPP) contracting model, which is so important in Australia, to the US market. A good example of both the scale effect as well as Lendlease’s early PPP efforts in the United States is the company’s military housing privatisation business in Fort Hood, Texas. Lendlease was contracted by the US Army to manage all aspects of the development, financing, construction, and property management for housing more than 5,300 military families into former military housing on a 50-year lease. Lendlease provides 45,000 houses and 15,000 hotel units, totalling US$8 billion of property development in its operations related to its military housing units.

The possibility of transplanting business models from market-to-market goes both ways. The company is also thinking of using insights from the multi-family dwelling market in the United States to create a new asset class in the Australian market. Decades of experience in both markets are crucial to being able to adjust the product to the tax and regulatory environment.

The biggest challenges the company sees to increased investment in Australia is in the regulatory environment. “Planning is what kills Australia,” Connor said, whereas worksite productivity, though important, is a second-order issue. “Speed is crucial from a foreign investor perspective,” he said, and the planning process slows project planning and development down significantly. This, in turn, has significant implications for the overall capital cost of projects, and hence their attracting foreign investment.
Costco Wholesale Corporation

One of the largest retailers in the world, Costco is a wholesale, membership-only warehouse club known for its discounted prices for bulk purchases of consumer goods. Beginning with one store in Seattle in 1983, Costco now has more than 730 locations around the world and earns more than A$100 billion a year. Targeted towards both households and small to medium businesses, Costco sells a diverse array of goods, ranging from groceries, apparel, and home electronics, to tyres, office equipment, and furniture. Costco prides itself on having high-quality brands for prices below traditional retail outlets due to its “no frills” shopping experience in a concrete-floored warehouse.

In implementing a business model developed in a more competitive retail market, Costco has not only taken some of the market share from Coles and Woolworths duopoly in a relatively short amount of time, but it has also helped make a distinct impact on their prices. Woolworths and Coles are reported to have spent extraordinary amounts – as much as $1 billion for Woolworths – in an effort to cut prices that were as much as 37 per cent higher than Costco. Despite these efforts, however, one recent analysis determined that Costco is still 27 per cent cheaper than Coles and 24 per cent cheaper than Woolworths on a number of products.\(^iv\)

In addition to more competitive prices, Costco has also pushed Australian retailers and vendors to embrace the latest global retail trends, from more organic offerings to new packaging concepts, such as bulk packaging.

Costco’s treatment of its employees also stands out when contrasted with its competitors. Most retailers around the world focus on cutting employee costs as much as possible to increase profit. Since its founding, however, Costco has subscribed to the belief that better compensated and happier employees will lead to a better customer experience. The result: when Costco hired 225 full and part time employees to staff its Docklands location, they were paid more and continued to work at Costco for longer than employees at most retail chains.

As a multinational corporation, Costco prides itself on bringing the best from around the world to each store at the lowest possible price. That has most clearly been demonstrated in bringing foreign brands to Australia, but also has included helping Australian goods – ranging from Uncle Tobys muesli bars to Tasmanian farm-raised salmon – to go global by being sold in Costco warehouses around the world.

Although membership-only warehouse shopping is a staple of many American households, Costco was a relatively foreign concept to most Australians before it opened its first warehouse in 2009. It was so foreign, in fact, that it literally pushed the state government to grasp how Costco operated. Costco wanted to take advantage of its unique business model and allow an area of the Docklands in Melbourne to be rezoned for Costco to operate. Costco wanted to take advantage of a retail market that was ripe for innovation in a country with low levels of corruption, high income levels, positive long-term prospects, and a helpful free-trade agreement with the United States but government proved to be a significant headwind.

According to Noone, it was not until a delegation of Victorian government officials visited Costco in the Seattle area that the state government began to grasp how Costco worked. While the building of each Costco warehouse in Australia that has followed the Docklands location has also required rezoning, the process has been significantly shortened now that Costco is a better-known entity. Australia’s eight Costcos make up a little over one per cent of the company’s worldwide presence, yet Costco has quickly made a presence, yet Costco has quickly made a significant impact on the Australian retail market.

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Endnotes


2. US Studies Centre data


9. Ibid.

10. Ibid.


13. Brash, p. 1


18. The spike around 2003-2005 is largely attributed to the moving of News Corp headquarters from Australia to the US.

19. The 2004 spike in US FDI is generally attributed to the move of News Corp headquarters from Australia to the US.


21. Available at: https://www.bea.gov


24. Available at: https://www.bea.gov

25. Available at: https://www.bea.gov and https://www.census.gov/foreign-trade/balance/c6021.html

26. Available at: https://www.bea.gov

27. Ibid.

28. Ibid.

29. Ibid.


34. CBA, the largest of the Big 4 banks, has indicated that in 2016, USD short-term funding was $29.008 billion compared to $6.741 billion in British Pound funding, with “other currencies” being only $312 million, and AUD being $214 million. CBA long-term funding was $43.479 billion in USD compared to $28.329 billion in EUR. Available here: Wetpac shows USD commercial paper funding to be $18.693 compared to $248 million in EUR commercial paper debt. Long-term funding was $61.788 billion in USD compared to $20.267 billion in EUR. Available here: https://www.westpac.com.au/content/ dam/public/wbc/documents/pdf/aw/ ic/2016_Westpac_Annual_Report NAB’s debt issuances in 2016 totaled $39.663 billion in USD and $28.380 billion in EUR. Available here: http://www.asx.com.au/asxpdf/20161114/ pdf/43cvsn2n0vcd2tp.pdf ANZ’s debt issuances in 2016 totaled $38.666 billion in USD and $23.917 billion in EUR. Available here: https://www.census.gov/foreign- trade/balance/c6021.html

37. Conversations with industry participants.
41. “ASX Top 300 Companies”, available at: https://www.asx300list.com
42. Source: Estimates based on APRA and Association of Superannuation Funds of Australia data, and discussions with Australian market participants. See endnote 28.
44. Don Brash, American Investment in Australian Industry, ANU Press, 1966, p137
45. The Australian Department of Immigration and Border Protection, “Temporary Work (Skilled) visa (subclass 457)”, available at: https://www.border.gov.au/Trav/Visa-1/457-
56. See: Stephen Kirchner, ‘Regulating foreign direct investment in Australia: A discussion paper’ (Finsia, 2014)