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## EXECUTIVE SUMMARY

US multinationals are important actors in the Australian economy, both in their own right and indirectly, through the business and business practices they bring to their local supply networks. They also are an important avenue for the further internationalisation of the Australian economy.

US multinationals in Australia are heavily involved in international trade and are linked into their global corporation networks. The Australia–United States Free Trade Agreement (FTA) is further deepening bilateral linkages, potentially bringing significant long-term benefits to the Australian economy.

Doing business with the multinationals can create substantial opportunities for Australian companies to grow their businesses. Many local companies, including small-to-medium enterprises (SMEs), have already developed successful business with the multinationals. Many have also been able to develop export business through the overseas networks and connections of the multinationals.

The primary focus of this survey-based study is on US multinationals as drivers of Australia's exports. In particular, given their reach and networks, it examines their role in facilitating access to the US and other overseas markets by local companies, including SMEs. The study has a threefold purpose.

First, it sets out to identify the likely implications of the FTA for US multinationals in Australia, as well as for their local suppliers.

Second, it seeks to gain some insights into the extent to which US multinationals in Australia have a significant role within their corporations' global networks, by considering their responsibilities beyond Australia (their 'mandates'); their export activity; and their involvement in research and development (R&D).

Third, it considers the interactions of US multinationals with local business and institutions. In particular, it looks at their procurement patterns and trends; the ways in which the multinationals help local company participation in their procurement and facilitate local company exports; their R&D interactions; and the impacts of e-commerce.

The report presents statistical findings of the survey, and gives significant emphasis to illustrations of the varied organisational arrangements and roles of the multinationals; some of the ways in which the multinationals are responding to developments and trends; and some of the ways they interact with local business. A number of the case studies included are aimed at identifying a range of relationships between the multinationals and local companies, and exploring factors underlying successful partnerships.

Interviews were held with 54 of the largest US multinational operations in Australia, involved across a broad range of industry sectors. These multinationals account for the bulk of US multinational activity in Australia. Interviews were also held with a number of local companies that are successfully supplying or otherwise working with the multinationals. A small number of Australian companies with significant operations in United States were also interviewed.

## The Free Trade Agreement

Australian exporters stand to benefit significantly from the FTA. The dynamic gains from the Agreement, brought about by a closer economic partnership, should also yield significant long-term benefits for the Australian economy.

Given their two-way trade with their US affiliates and their being linked more broadly into global networks, the Australian operations of many US multinational corporations are also in a good position to benefit – through both an expanded level of domestic business activity and a stronger export performance.

The membership of many of the parent corporations of the companies interviewed, as well as some of the companies themselves, of coalitions or business associations which came out strongly in support of the Agreement points to anticipated benefits for their operations in Australia.

Over one-quarter of the multinationals surveyed that are involved in export anticipated that the FTA would lead to a significant increase in their overall exports. This probably represents a conservative indicator of longer-term export gains however, as it takes time for multinational corporations to weigh up the full implications of the Agreement, especially where these might point to major investment decisions and/or shifts in regional/global responsibilities of affiliates. (Most interviews were held in August 2004.) The survey response is also unlikely to capture the effects of the harder to measure dynamic productivity gains on the multinationals' export competitiveness.

The boost the FTA will provide to the Australian operations of the multinational corporations will in turn lead to greater business opportunities for their suppliers and other business partners.

The Agreement will enhance Australia's attractiveness as a destination for US investment. Increased investment will, in turn, spur greater linkages and synergies between firms in the two countries, and encourage best practice in both the private and public sectors as the economies integrate further. The Agreement should also serve as an incentive for US investors to use Australia as a base for operations in the Asia Pacific region, particularly South-East Asia.

If FTAs currently under consideration with regional partners – ASEAN, Malaysia, China – come to fruition, US multinational corporations will come to see still more opportunities for their operations in Australia. A number already centre significant activities in Australia, including regional headquarters functions. Companies from other countries in the region, as well as other regions would also see advantages in servicing the region and the United States from operations in Australia.

## Multinational integration into corporate structures

Many multinationals play a significant role within their corporations' global networks, with production/sales responsibilities or else a broad-ranging mandate for the provision of services, beyond New Zealand and the South Pacific. Many also have a significant reliance on exports. These findings are encouraging, as they underline the key role these firms play in integrating Australia into the global economy.

The multinationals with production/sales mandates beyond New Zealand and the South Pacific have a range of circumstances. Some operate fairly independently of their headquarters and have a relatively

free hand in exports. Some exercise their demonstrated competitiveness in exporting to the region or beyond. For others, the markets they are able to enter may be more heavily constrained, with their competitiveness relative to other affiliates the key determining factor. In some cases, arrangements may be highly structured, with so-called 'centres of excellence' for different activities scattered around the globe, including in Australia.

Australia is a favoured location for many US multinational corporations for the provision of services functions to affiliates throughout the Asia Pacific region, particularly information technology and accounting services. Many multinationals also are using Australia as an R&D hub, mostly as a global hub or for the Asia Pacific region.

Mandates need not remain static, however. The mandates of a number of the multinationals have changed over the past five years, some enhanced and some reduced. Australian affiliates need continually to demonstrate their relevance if they are to retain or secure wide-ranging responsibilities.

Most of the US multinationals interviewed are involved in export. The companies surveyed include some of Australia's largest exporters. South-East Asia is a major market for three-quarters of the multinationals involved in export, while North Asia is a major market for over half the exporters.

Over the past five years, exports have become more important for most multinationals. Most expect this trend to continue.

Most multinationals also conduct R&D in Australia that results in product sales into overseas markets.

### **Linkages with local companies**

US multinationals generate considerable business activity and employment through their supply networks.

Multinational corporations are tending to global or regional purchasing decisions as they seek to drive down costs and maintain profitability in the face of increasing global competition. Nevertheless, high levels of local procurement have been maintained in the face of this increasing contestability of purchasing decisions. The local affiliates of many multinational corporations have retained reasonable flexibility in their sourcing and see distinct advantages in local sourcing, notably the avoidance of the shipping costs and delays associated with foreign sourcing. Some multinationals also recognise that nurturing local procurement helps build the capabilities and competitiveness of the local supplier base.

Participation in global or regional supply chains brings new considerations into play. Some local companies are succeeding in getting onto the multinationals' lists of preferred suppliers for global or regional procurements and are winning contracts.

A number of the multinationals interviewed have a procurement role within their global corporations extending beyond the immediate region. This can be to local suppliers' advantage, both for supply to the local affiliate operations and for securing exports to affiliates elsewhere.

In part driven by the trend to global purchasing, a number of multinationals have in recent years moved to rationalise and consolidate their supplier lists.

Local outsourcing of services by US multinationals in Australia is widespread and growing. This presents opportunities for Australian service providers.

While the experience of the vast majority of the multinationals is that the capabilities of local businesses have improved over the past five years, the capabilities and competitiveness of businesses in Asia are also improving. Australian companies therefore need to continue to sharpen their competitiveness and move up the 'value chain'.

US multinationals have identified a diverse set of ways in which they have helped local company participation in their procurement. More than one-third of the companies interviewed have developed partnerships and long-term relationships with their key suppliers. Other mechanisms have included inviting and facilitating local involvement in tenders; providing technical assistance; challenging suppliers' ways of doing things; sharing information; and helping suppliers streamline their processes and procedures. Such assistance can help suppliers in their other business activities, both here and overseas.

Many multinationals are also introducing local suppliers to their overseas affiliates and in this way are helping them start or increase exporting. Any business secured with overseas affiliates can in turn lead to introductions to other affiliates or third parties in overseas markets. For their part, the multinationals can benefit to the extent that their suppliers stand to derive greater efficiencies and capabilities as a result of a greater scale of operations and exposure to this export trade.

Most multinationals interviewed are undertaking research and development in Australia, both with Australian companies and with research institutions. Companies generally commented favourably on their linkages with local research institutions, including the calibre of their researchers.

The trend to e-commerce is having implications for local suppliers. They will increasingly need to be able to bid for contracts by electronic means, as well as engage in electronic payments systems. Some multinational corporations are tending to procure more regionally or globally, using e-commerce. E-commerce and the Internet also are fast-changing the way the major US engineering, procurement and construction contractors are conducting their global business.

The Government places importance on attracting productive inward investment. There are also a number of government and government-supported programs to help promote partnerships and links between the multinationals and local industry.

### **Australian multinationals**

Most Australian multinationals that have established affiliates in the United States have done so to supply the US market. Many of the largest investors face high transport costs for their inputs and products and need to be close to their suppliers and customers.